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IN THE
Supreme Court of the United States

OCTOBER TERM 1977

77-
No. 1413

JANE ARONSON,

Petitioner,

v.

QUICK POINT PENCIL COMPANY,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

**MOTION FOR LEAVE TO FILE BRIEF
AMICUS CURIAE**

**BRIEF ON BEHALF OF
THE AMERICAN PATENT LAW ASSOCIATION
AS AMICUS CURIAE**

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A person shall be entitled to a patent unless —	
(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or	
(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or	
(c) he has abandoned the invention, or	
(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or	
(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or	
(f) he did not himself invent the subject matter sought to be patented, or	
(g) before the applicant's invention thereof, the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other. (Amended July 28, 1972, Public Law 92-358, sec. 2, 86 Stat. 501).	
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Applications for patents shall be kept in confidence by the Patent and Trademark Office and no information concerning the same given without authority of the applicant or owner unless necessary to carry out the provisions of any Act of Congress or in such special circumstances as may be determined by the Commissioner. (Amended January 2, 1975, Public Law 93-596, sec. 1, 88 Stat. 1949.)

§ 151. Issue of patent 39

If it appears that applicant is entitled to a patent under the law, a written notice of allowance of the application shall be given or mailed to the applicant. The notice shall specify a sum, constituting the issue fee or a portion thereof, which shall be paid within three months thereafter.

Upon payment of this sum the patent shall issue, but if payment is not timely made, the application shall be regarded as abandoned.

Any remaining balance of the issue fee shall be paid within three months from the sending of a notice thereof and, if not paid, the patent shall lapse at the termination of this three-month period. In calculating the amount of a remaining balance, charges for a page or less may be disregarded.

If any payment required by this section is not timely made, but is submitted with the fee for delayed payment and the delay in payment is shown to have been unavoidable, it may be accepted by the Commissioner as though no abandonment or lapse had ever occurred. (Amended July 24, 1965, Public Law 89-83, secs. 4 and 6, 79 Stat. 260; and January 2, 1975, Public Law 93-601, sec. 3, 88 Stat. 1956.)

§ 154. Contents and term of patent 24

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. (Amended July 24, 1965, Public Law 89-83, sec. 5, 79 Stat. 261.)

§ 261. Ownership; assignment 30, 31

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey to an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

A certificate of acknowledgement under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.

An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage. (Amended January 2, 1975, Public Law 93-596, sec. 1, 88 Stat. 1949).

§ 283. Injunction 24

The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

§ 284. Damages 24

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

CONSTITUTIONAL PROVISIONS RELIED UPON

Article 1, Section 8, clause 8:

The Congress shall have Power . . .

To promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries

24, 35

MISCELLANEOUS

Clark Boardman Company's Annual Book, *Patent Law Review-1973* 33

Frankfurter, *The Task Of Administrative Law*, 75 U.Pa. L.R. 614 (1927) 5

McClintock, *Principles Of Equity*, Second Edition (1948) § 90 at 244 32

Posner, *Economic Analysis Of Law*, Little Brown & Co. 19

CONSENT OF THE PARTIES

A letter from the party Aronson indicating consent to the filing of this brief is being filed with the Clerk.

A request for leave to file this brief was presented to but denied by the party Quick Point.

So a motion for leave is presented herewith.

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I.

**MOTION FOR LEAVE TO FILE
BRIEF AMICUS CURIAE**

The American Patent Law Association ("APLA") moves for leave to file the accompanying brief Amicus Curiae.

In support thereof, the Association states the following:

A letter from the party Aronson, consenting to APLA's brief, is on file with the clerk. The Party Quick Point has declined so to consent.

The facts which give rise to the issue before the Court relate to a key holder which is immediately and completely disclosed upon its first marketing, a technology area where there exists many individual private interests but no important national economic interest.

The question on which certiorari was granted is in terms generic to, and is inherently inseparable from, multi-billion dollar national interests. (Know-how license royalties are now running at the billion-a-year rate on know-how of capital value of many billions of dollars).

As to the multi-billion dollar national interests, and the policies relating thereto, there is no evidence in the trial record. Further, parties to the case do not appear to have the industrial-know-how-license background to even know that the multi-billion dollar national interest exists within the scope of the question on which certiorari was granted.

Current business practices involving multi-billion dollar values of national interest, indeed involving even the national balance of payments deficit, is inseparable, for patent law preemption purposes, from the Quick Point license problem that involves no great national interest. The American Patent Law Association wishes to provide to the Court some appreciation of patent law preemption inevitable application to those national values, if it is applied to the Quick Point license.

For without empirical data as to the effects of what the Court is asked to rule, the Court cannot rule intelligently.

Wherefore, leave to file the attached brief is requested.

Respectfully submitted,

.....
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The American Patent Law
Association

II.

THE NATURE OF THE AMICUS

This brief amicus curiae is submitted by the American Patent Law Association (APLA)¹ under Rule 42(2) of this Court.

APLA is a nationwide association of over 4000 members including judges, law teachers and lawyers from private, corporate and government practice. The professional activity of its members is predominantly the intellectual property area including patents, trade secrets, know-how, trademarks and copyrights. Probably substantially over half of the lawyers who practice to any significant degree in the area of technology development and licensing, are members of APLA.

Unlike some specialties of law practice where plaintiffs and defendants are often represented by predominantly separate legal fraternities, in the law of technology development and licensing, and related litigation, the same individual attorneys almost uniformly appear as often on the licensor side as the licensee side, on the plaintiff's side as the defendant's side.

Thus they inherently study the competitive and economic realities of technology transactions from all sides. By such experience and membership composition, this association is well balanced in the realities of technology-transfer law and its economics.

¹ APLA's membership-at-large elects those who form APLA's 19 member Board of Managers. The outline and general subject matter of this brief was determined by the entire Board in the course of authorizing the filing of it on behalf of APLA. The actual brief in its final form has been approved by the Executive Committee of the APLA Board of Managers.

III.

THE INTEREST OF THE AMICUS

There is essentially no social, economic or policy evidence of record in this case upon which to base the legislative-type policy decision on the question on which certiorari was granted.

The parties to this case are not representative of the vast industrial investments in unpatented know-how, literally billions of dollars, which are to be vitally affected by the manner in which the Court answers the question presented.

The Amicus has no interest in the outcome of the particular case before the Court.

But members of the Amicus represent industrial and societal interests involving literally billions of dollars in technical know-how investments and values and national technology competitive posture with the rest of the world, all of which seem inevitably and unavoidably at risk in this case.

If those very important national and technology interests which are not represented by the parties Aronson and Quick Point were not deemed to be at risk by the question on certiorari, APLA would not be here as Amicus.

This Court in its very recent *Parker v. Flook*, U.S., 98 S.Ct. 2522 (1978) acknowledged that it does not have access to the empirical data necessary for public policy making in the area of protection of certain intellectual property — there, computer software — and that acknowledgement is surely as applicable to the issue of the present case.

It is Amicus' purpose to provide as best it can some bit of the empirical data and a view of Justice Frankfurter's

"realities of the law in action"² so that the Court may be aware of how society must inevitably be affected by the various possible answers to the issue before the court.

IV.

THE ISSUE IS VITALLY IMPORTANT
TO THE ENTIRE NATION

"We must be especially wary against the dangers of premature synthesis, of sterile generalization unenriched by the realities of law in action." *The Task of Administrative Law*, 75 U.Pa. L.R. 614 (1927).

The issue on which certiorari has been granted seems to have many important clauses:

patent law preemption/

of freedom of people to contract/

for payment [piece-of-the-action] in exchange for transfer of technology/

technology which is not patented and perchance not patentable/

which is accessible by engineering of and from information available from public sources.³

² Frankfurter, *The Task of Administrative Law*, 75 U.Pa. L.R. 614 (1927).

³ The Aronson key holder is subject to very quick "reverse engineering"; a glance by any shop hand familiar with the type of product and he can make it. The mechanical pencil would take a little longer, but still be quick. The familiar Mixmaster in every kitchen — longer by another month. An electric typewriter — longer by a year perhaps. A J-59 jet engine — longer by many years.

A fluidized catalytic oil refinery or polyurethane plant is a little different because the process is not on the market for reverse engineering. But even there, the basic concepts very commonly soon become knowable from incidental disclosures in patents which may or may not cover them, from technical journals or institutes, or the like, and from an often surprisingly

The Res is a billion dollar private capital investment in technology.

The importance of that question turns first upon the economic significance of the *res* involved, the technology which is not patented and often not patentable, and which is accessible by engineering of information available from public sources.

That *res* is a *multibillion* dollar *res*.

It is vital that this be understood. *There exists today, know-how license contracts on which roughly a billion dollars are being paid every year by foreign buyers to U. S. sellers of technology, for technology which is not patented in the subject country of use and which is not secret in the sense that it is accessible by engineering the publicly available information.*⁴

As explained in Appendix A hereto, the figures are uncertain and soft, and there is a definitional overlap and intermix between "trade secret" and "know-how" and acute confusion as to the true meaning of "secret". But the Billion dollar order of magnitude for unpatented and publicly accessible technology is a highly responsible estimate.

lar amount of process analysis that can come from the end product that is on the market.

Thus, even as to the petrochemical processing industry, it is almost routine for enough information to be available from public sources such that an engineering job can in a few years time produce even a chemical plant. Of course some secrets are key and hard to crack, and some keys are protected by patents, so routine engineering will not always provide the desired usable knowledge, but quite often it will. Very often.

The point here: The issue as presented is not limited to gadgets, but potentially affects all the world of unpatented, unsecret technology — of which more in the text.

⁴ See Appendix A.

One of the reasons precise figures are not obtainable is the ephemeral character of know-how. Commonly, often, marketed know-how is an assembled package of reconciled parameter details, warrantable to be essentially bug-free and capable of producing X quantity of Y quality polyethylene or carbon black or jet engines at Z cost commencing by a specified early date. It is known at contract time that much of the package both is not patented and is available by engineering of publicly available information and in that sense is not secret.

Further all the confidentiality and patent protection that does reside in the package at contract time is expected to dissipate in erratic and unpredictable patterns which are almost totally unrelated to the value the licensee gets when he needs his assembled package of pre-recorded know-how parameters.

This truth, that in high technology know-how licensing the pattern of dissipation of secrecy of licensed know-how packages is commonly almost totally independent of the value realized by the buyer, is perhaps one of the most important truths for any policy-maker in this area to perceive well and understand the many meanings-of.

And, it is *private* capital investment that produces essentially all of this actually-licensed know-how technology. The government puts much R & D money into concepts and into military and space hardware. But rarely, if ever, does the government translate such technology into finished packages licensable as unpatented know-how.

So this billion-odd dollars annually is direct support for private research and development.

While there are not hard figures on the point, it is responsible to estimate that for purposes of international trade in technology and manufactured goods, United States know-

how is worth much more than its portfolio of foreign patents. So, in that sense, that very important sense, unpatented know-how is our most valuable national asset.

There exists now a national crisis in the shortage of research and development.

The Court can take judicial knowledge of the growing loss of U.S. position in world technology competition.

The New York Times News Service, on June 4, 1978, released an article entitled and commencing as follows:

ALARM SOUNDED OVER DECLINING SUPPORT OF AMERICAN EXPLORATORY RESEARCH

Washington. An increasing number of experts in both government and the private sector, fear that American industry -- the standard-setter in commercial innovation for more than a century -- is losing its creative edge because of declining investment in research. * * *

This ominous conclusion is shared by Presidential aides [Stuart E. Eizenstat and Frank Press], congressmen and economists who have studied national research and development trends.

* * *

Newsweek of July 3, 1978, has a major article:

A GROWING R & D GAP

American enterprise thrives on invention -- the pursuit of an abstract formula in a lonely college lab [commonly pursuant to corporate financing in pursuit of a profit], the fashioning of advanced computer hardware in a massive industrial complex.

Yet, there are growing signs that this creative pulse is slowing down.

Between 1971 and 1976 patents granted to Americans fell by 21 percent. In the same period the number of Japanese scientists and engineers performing non-defense research and development climbed close to the U.S. total -- even though Japan's population is less than half that of the United States. The figures make it abundantly clear that our nation's position of R & D leadership is slipping.

* * *

The Commissioner of Patents in a speech in New York August 5, 1978, quoted Assistant Secretary of Commerce Frank Weil's statement in the New York Times,

The United States is now running an annual rate deficit of \$10.5 billion on manufactured goods in contrast to a \$3 billion surplus last year and a \$12 billion surplus in 1976.

The Commissioner also quoted Senator Stevenson:

Technological innovation was responsible for 45 percent of the nation's economic growth from 1929 to 1969. It remains the key to our ability to compete in the world.

The \$30 billion trade deficit is not so much the result of the oil bill as it is our inability to pay for it with exports. Other nations do so. * * *

The key to recovery and stable prices is industrial innovation, including innovation in the production of food.

But the nation is losing its edge. More R & D takes place outside than inside the United States.

* * *

The cover story of the July 3, 1978 *Business Week* was entitled "Vanishing Innovation". The subtitle reads:

"A hostile climate for new ideas and products is threatening the technological superiority of the U.S."

The hostile climate referred to is the government [including the judiciary] which is alleged in the article to be "beating hell out of the goose that lays the golden eggs."

It is noteworthy that the economic health of the R & D community and the competitive posture of this nation's R & D effort in the rest of the world has never been the subject of any evidence before the courts when they, from time to time in the last 15 years, have denied protection of the results of U.S. investment in technology, thereby discouraging investment in R & D.

Without empirical data on such vital matters, i.e., without Mr. Justice Frankfurter's "realities of law in action" before it, the courts have often failed to support a climate for protection of research and development results.⁵ A climate in which profits may be earned on those investments; by which new capital can be induced into R & D.

So, the courts appear to be a not inconsequential part of the problem, bit by bit unwittingly destroying industrialists' confidence that unavoidably-high-risk R & D is a profitable place for investment when safer Certificate of Deposit and bond investments will return on the order of seven/eight percent.

⁵ *Parker v. Flook*, U.S. (June 22, 1978); *Sakraida v. Ag. Pro, Inc.*, 425 U.S. 273 (1976); *Dann v. Johnston*, 425 U.S. 219 (1976); *Gottschalk v. Benson*, 409 U.S. 63 (1972); *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972); *Blonder-Tongue Laboratories Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971); *Anderson's Black Rock Inc. v. Pavement Salvage Co.*, 396 U.S. 57 (1969); *Lear Inc. v. Adkins*, 395 U.S. 653 (1969); *Zenith Radio Corp. v. Hazeltine Research Inc.*, 395 U.S. 100 (1969); *Graham v. John Deere Co.*, 383 U.S. 1 (1966); *Calmar Inc. v. Cook Chemical Co. and Colgate-Palmolive Co. v. Cook Chemical Co.*, 383 U.S. 1 (1966); *Brulotte v. Thys Co.*, 379 U.S. 29 (1964); *Aro Mfg. Co. Inc. v. Convertible Top Replacement Co. Inc.*, 365 U.S. 336 (1961).

The concern over national technology policy, has reached such levels that President Carter is now, August 1978, appointing a special high level national commission⁶ to study that national innovation and technology policy.

When the court is being asked to write a national policy the Congress clearly did not express, the Court must consider the relevant policy issues — here being the economics of technology creation and marketing.

This Amicus Brief is focused primarily upon that subject matter.

V.

THE FORMAT OF COMMON KNOW-HOW LICENSES — AND WHY

After the patents on the basic concepts of jet aircraft engines had long since expired, and after nearly every major aircraft engine manufacturer in the world had made and marketed one or more jet engines, Pratt and Whitney set about the development of a jumbo jet engine for the early wide bodied jet passenger planes and certain military applications. Using predominantly common "public domain" concepts, but straining to optimize selections from that nonsecret knowledge so as to get a large engine of a new level of efficiency and low noise, and so as to get techniques for its manufacture that would support a moderate cost of manufacture for such an engine, Pratt and Whitney spent what is reported⁷ to be \$500,000,000 on that one engine development, alone. A comparable development by Rolls Royce of an engine for the Lockheed 1011 bankrupt the company.

⁶ Industrial Innovation Coordinating Committee.

⁷ United Aircraft's Daily Newsletter Supplement, July 18, 1973.

If the public is to have any source of supply of such engines, that staggering figure must be recoverable out of engines Pratt & Whitney and the financially re-organized Rolls Royce build and out of know-how licenses, if any, granted to other manufacturers. For the companies will not be here tomorrow who make no profit on today's investments.

But if no royalty is collectable from engines manufactured by the use of elements of information which are neither secret of concept or patented (Cf. *Brulotte v. Thys*, 379 U.S. 29 (1964)), then the technology is not likely to be licensed for use in competition with Pratt & Whitney by a party who did not take the half-billion dollar technology-development risk in the first place.⁸

Similarly, petrochemical companies by the dozen, at great expense, build and operate chemical pilot plants by the score and computer models out of expensively developed computer software. They "play" expensive design games with those pilot plants and computer-simulated models, thereby to select and try out bits and pieces of mostly publicly available knowledge, and to evaluate this alternative versus that alternative.

Often their most important "secret" discoveries are those by which they learn just which public domain knowledge *not* to use. Such a secret — knowing what not to use — is clearly knowledge of non-patentable character. Also, all people have access to that same knowledge by simple trials and errors; so the secrecy of knowing-what-not-to-use does not really protect it from becoming known and used by others.

⁸ The author of this brief has no source of information on Pratt and Whitney other than public sources and is not informed as to whether such a license exists in fact.

Yet, finding out what public domain information not to use is the most expensive part of very many if not most technology developments. The act of selecting alloy 402 for turbine blades, or an autoclave rather than a tubular reactor, etc., is the act of trying out dozens of other publicly available ideas and rejecting them — finding out what not to use.

The point bears repeating: What-not-to-use is the most expensive business information to come by reliably. Patents do not protect it; and secrecy protects it from derivation but not from independent discovery.

The similarities between the highest technologies and the simple key holder, commence to appear when that truth is understood. The only difference is in cost and time required to engineer and learn the particular technology.

• • •

During the decade of the 60's half a dozen companies were competing in the sale of know-how licenses for the manufacture of high-pressure polyethylene, the licenses commonly being for royalties (among other considerations) intended to run into the several million to ten million dollar range. In these particular license undertakings which extended world-wide with several United States companies granting many foreign as well as domestic licenses, patents to the extent present were a give-away.

The give-away nature of patents in know-how license packages is not at all uncommon. In fact it is common. Why? A company can not license its know-how and then turn around and sue its own licensee for infringement of its patents. So as the relative value of the know-how goes up with increasingly sophisticated plant and product designs and the relative value of the patent portfolio inevitably

declines with expiration of the basic patents in an area, the remaining patents, if any, tend to be thrown into the license package, gratis.

In the polyethylene know-how licenses above referred to, being entered into over 20 years after the original invention, the patents were essentially never examined or evaluated or if they were they still tended toward relatively minor significance.

Most of the basic concepts of high pressure polyethylene had already grown old and were no longer patented in the 1960's; and the improvement patents that still survived were of minor value by comparison with the very sophisticated know-how by which the alternative publicly available concepts were rejected or selected and optimized into efficient and warrantable know-how packages.

The stature of the confidential or "secret" information in the license packages tended not to be of the nature of use of a lubricant in the compressors with the rest of the world not knowing about lubricants. Rather the stature of the secrets was of the form:

From among the list of 37 lubricants publicly recommended by lubricant manufacturers, we have rejected 36 (and selected lubricant X) because our tests have proven this and that disadvantage in the 36 lubricants in this application.

Consider another example of the stature of the "secrets": The public knowledge already suggesting reactor temperatures of 1000°C to 1200°C (fictional figures used for illustration), and the public knowledge including both simple and sophisticated controls automatically responsive at all different speeds to temperature change, one alleged secret, potentially very valuable, might be:

"It is very worthwhile to pay the extra price for the expensive controls, so you can then get the efficiencies of operations at 1195° without risking a reactor blow-up."

High pressure polyethylene reactors are built behind literally eight-foot-thick reinforced concrete walls because the process efficiency and product quality requires operation at the very threshold of explosion, as near explosion as a man dares.⁹

Million dollar values turn on the trade out, high operating temperature vs danger of explosion, and on choice of one among several publicly available control systems by an evaluation of its reliability.

Even when no element of a know-how package is either secret in its concept or patented, it often takes hundreds of thousands of dollars, very often millions, and not rarely half a billion or more, to develop even *publicly available* conceptual information into an integrated package of parameters that has a known and proven cost, quality and reliability of operation.

Every element of many currently used processes for fluidized catalytic cracking of petroleum into gasoline is findable in the literature. Yet several companies still license their expensively developed sophisticated packages of know-how for hundreds of thousands of dollars worth of royalties.

What is the contract formula?

"I have developed it (or will develop it) and I'll show you how.

⁹ A minor loss of process control resulted in a number of major explosions in the 60's at various plants both in the United States and abroad.

You give me a piece-of-the-action, i.e., pay me a royalty on your production for X years.

You keep confidential what I show you so I still have a market for my expensively developed know-how."

The piece-of-the-action payment formula is as American as apple pie.

Neither the de facto secrecy of the licensed know-how nor the term of the obligation of confidence is tied to the royalty term, or vice versa. Very often each individual element of the know-how package is either specifically public information or is mere routine engineering ("routineering") away from public information, given the time and the money to do the "routineering," test for breakdowns and inadequate refinements in process controls and "routineer" some more.

. . .

Sometimes the motivating force in a transaction is an idea owner who is a seller looking for a buyer who will develop and market. Sometimes it is a developer whose business is finding things to develop with some of its own resources. **In either case the likely license formula is a piece-of-the-action in the goods sold, irrespective of life of secrecy or patent protection. — Usually for a finite term like 5 years or 10 years, but irrespective of secrecy or patents.**

. . .

The same story repeats itself with respect to all kinds of technologies, processes and products, ranging from the processes of carbon black manufacture to computer hardware and also computer software. For the most part, conceptually nonsecret and non-patented technologies costing big capital investments to produce for society's benefit.

In the absence of continuing, long term, big capital investments in the inevitably high risk investment that is

R & D, the nation suffers a balance of manufactured goods trade deficit discussed above.

Why royalty payments long after the secrecy is gone?

Why do the buyers of technologies commonly pay hundreds of thousands to millions of dollars for the technology they buy that is not inaccessible to them or very much patented?

Because it is worth the money!

Buying the technology saves the time and expense and risk of repeating an engineering job already done by another. Spending money on your own R & D is up-front money, pre-production money, and *that* money is hard to come by.

But why payment in piece-of-the-action royalties on production long after the same or similar packages of know-how have been sold to and are in use by everybody in the industry?

One answer: Because the parties to the deal find that to be *fair*.

Why, one may ask, should not the law *require* all the money to be paid up front instead of in piece-of-the-action royalties which extend over several production years when little if any important secrecy or patent protection may still be extant? Among many other reasons:

Because when the buyer wants a complete package of know-how to build and operate a nylon or digital watch plant, the secrets dissipate and sometimes get replaced with new developments by the licensor and the patents expire and sometimes get replaced with others of different value — all in erratic, unpredictable, even *unmeasurable* patterns which have only little to do with the buyer's value received.

Because the buyer is often committing all the capital he can raise, and every buck he spends up front for know-how is a buck he cannot spend on plant capacity;

Because the buyer does not know how well he will succeed, nor how soon, in the market; and he needs the insurance of not having paid so much for know-how that he cannot amortize it over unhappily low production and sales;

Because the licensor-competitor does not mind getting only a little money if his licensee-competitor makes only a small dent in the market, but justly needs a large total consideration to induce him to license an operation which makes a big dent in the licensor's market — and the consideration tracks the market dent to the extent it is royalty consideration rather than other forms of consideration.

Why should not the law set the formula for the consideration? Because unavoidably the law cannot track the commercial realities that are different from case to case, industry to industry, license to license.

• • •

*The typical piece-of-the-action
contract formula is a win for
the licensor, win for the licensee,
and win for the public.*

Notice that the piece-of-the-action formula is a win, win, win situation for licensor, licensee and the public.

The sellers get a return on their R & D investment; finding R & D investments profitable the sellers are encouraged to spend some more money on R & D from which the whole nation benefits.

The buyers get proven technology they can rely upon, without having to pay up-front money for his own R & D; they get delayed time payment as a proportion of produc-

tion, immune from cost overruns; they get to put more capital into plant to make more goods for the people to enjoy.

The public has avoided the indirect cost of multiple companies financing the same R & D projects. The public gets timely competitive sources of supply where without the licenses there would be fewer producers, often perhaps only one, and often gets the licensor to pour more money into R & D in his chase for another profit buck at a time when the nation needs more R & D.

As Posner put it: A rational buyer is willing to pay for a property, sums equal to or more than the seller will ask for the sale, only if the buyer believes he can put the property to a more valuable use. Thus

“• • • resources [tend] to gravitate toward their highest value use if exchange is permitted [and encouraged by the law]. • • •

“By a process of voluntary exchange, resources are shifted to those uses in which the value to the consumer, as measured by the consumer's willingness to pay, is highest.

“When resources are being used where their value is greatest, we may say that they are being employed efficiently.” Posner, *Economic Analysis of Law*, Little Brown and Company, 1972.

I say again: *royalties* paid for nonpatented information, which is publicly available by routineering and in that sense is also not secret, is a win, win, win situation for the licensor, the licensee and the public.

• • •

*Does all this mean patents are
not “involved” in know-how licenses?*

*Does all this mean patents
are of no value?*

Does all this mean that patents are not involved in know-how, or not important?

Positively not.

Almost every significant know-how package is — to use the word of one court opinion — “involved” with patents. And patents are “involved” in almost every significant know-how package. For at least some improvements made in each development are arguably patentable improvements and applications for patents are filed on conceptual elements of such work. By informed guess, roughly half of the applications for patent are rejected as was Mrs. Aronson's, or are allowed only after amendment to such a narrow scope that they do not cover the know-how as actually used or any know-how of significant value.

Are patents involved? Almost always, if by that is meant, filing an application on some element of the know-how as Aronson did?

Are the patents important? Very often yes and very often no — in particular know-how packages.

But as a system-service to society patents are vital.

The value of the patent system is greatest with respect to a different part of the technology market spectrum than the less-understood one now under discussion.

For example, as an inducement for basic research out of which the fundamental new concepts most commonly flow, a healthy confidence by capitalists in the protection by patent of the conceptual results of their risk of capital on R & D, is essential. Without it the deterioration of basic research now bemoaned by our government and the entire scientific community, must follow.

The flow of improvements is surely sponsored by the patent statute's protection of “improvements”. So —

A viable patent inducement of private capital into conceptual R & D is one of our nation's most important motor-forces without which our leadership of the world would inherently be destroyed.

But it is only one of two such critical motor-forces.

Since the patent clause was written into our constitution (not *per se* to protect the inventor but rather to promote the useful arts for all to enjoy), technology has taken on whole new dimensions of sophistication. — Sophistication such that, the act of taking the patented concept and converting it into efficient devices society needs, is in need of its own motor-force of a return on investment, even after the invention is made.

A given agricultural chemical use of tremendous value to mechanical harvest of cotton was invented some ten odd years ago. The invention was complete. But it cost another million or so to prove safety to the farmer, safety to the cattle which eat the cotton seed, and safety to the people who wear cotton. A hundred years ago, development costs of the then inventions were peanuts beside the coconut costs of conceptual invention; now the development costs are commonly basketballs beside the coconuts.

In our present high technology world the concepts subject to patent protection come with no greater difficulty and are of no greater value than many of the know-how packages of optimized product design or processing information whose primary elements soon are no longer secret or patented though their value continues on.

After the jet engine patents of the thirties and forties expired in the fifties and sixties, the know-how for making jet engines of ordinary performance was publicly available; but taking that conceptual knowledge to a commercially acceptable set of bigger dimensions, better choices of metal

for red hot turbine blades subject to terrific centrifugal forces, more refined choices of turbine blade shape for the best compromise between fuel efficiency, weight/power ratio and noise, etc., undoubtedly cost much *more* capital investment than the several original inventive jet engine concepts — and it certainly has proved vital to the national welfare by making literally thousands of jobs and balance of payment credits for Americans through export of either the high technology products or the intangible technology itself.

The same is true for many technologies.

And the amount and value of *unlicensed* know-how, much of it ripe to be induced to market by a favorable and reliable climate of law, surely exceeds the billions of dollars of licensed technology, by factors of 10 or 100 or 1000 — nobody knows how much.

VI.

THERE IS A SIGNIFICANT DISTINCTION BETWEEN THE KNOW-HOW FACTS OF ARONSON BY COMPARISON WITH JET ENGINES AND FLUIDIZED CATALYTIC CRACKING, ETC., BUT THE PATENT LAW DOES NOT ADDRESS THAT DISTINCTION

It is virtually certain that every major know-how package includes at least one element which was the subject of a rejected patent application, and in that sense licensed know-how is like Aronson's license to Quick Point — the patent law is "involved".

By the nature of the Aronson key holder the know-how which retained any residual element of confidentiality after public sale of the key holder, was *de minimis* of character and was of *de minimis* value. Any manufacturer experi-

enced in the line could take one quick glance at it and set up an assembly line to manufacture it almost as fast as the janitor could sweep the factory floor in front of the set-up.

But look at the J-59 jumbo jet engine. Could a manufacturer so looking determine the metallurgy of all its different parts that was required for them to take their respective heat, pressure and centrifugal force loadings — loadings which are not revealed by any look at the engine itself? Could the manufacturer determine the loadings for all different flying conditions, the tolerances of turbine blade shapes, etc., etc., and set up an assembly line to make a copy of the engine in a year's time or at a mere million dollars expense?

Not a chance. If a jet engine (or computer, etc.) were that easy to reverse-engineer from the marketed product, Rolls Royce would not have gone bankrupt designing an engine to compete with Pratt & Whitney's jumbo jet engine. The real-world facts make the lie of ivory towered theories that all valuable secrecy is lost upon the first marketing of a complex product.

Though not secret of concept, in the real world of engineering values, the detailed parameters of the jumbo jet engine remains some millions of dollars worth "*stillsecret*" even after competitive manufacturers have bought a specimen and examined it for a month. For even then, there remain

- (1) true process-of-manufacture secrets of the *Kewanee Oil*¹⁰ type, plus,
- (2) every gradation downward to the tolerances in the bearings and the curvature of the blades in the four-

¹⁰ *Kewanee Oil Company v. Bicon Corp.*, 416 U.S. 470 (1974).

teenth row — some of them treated in rejected or allowed patent applications.

How does that difference in facts between the key holder case and the jet engine (computer, etc.) case, relate to the patent law?

Congress gave no attention to patent law preemption

The patent right per Title 35 U.S.C. is a bundle of quite particular terms and conditions. By way of very abbreviated example:

- (1) To get the patent right, the applicant must publish his concept in his patent. § 154.
- (2) To get his patent right, the applicant must dedicate all his rights in the patented concept after 17 years. § 154.
- (3) If he gets his patent, subject to the terms of § 283, it may afford the remedy of injunction, of exclusive right to use.
- (4) If he gets his patent, subject to the conditions of § 284, it may afford the remedies of damages, of a reasonable royalty, or even of trebled damages.

When writing the patent statute the Congress was addressing "promote the progress of science and the useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries",¹¹ i.e.

establishing a patent *system*
to promote the useful arts.

¹¹ Constitution, Art I, Sec. 8, Cl. 8.

In *that* context, where the social value target was a system for "promoting the useful arts", the Congress decided which technology would and which would not

- (1) Be of societal value in that system sufficient to be worth a 17 year exclusive right after publication, or as an inducement to get the publication.
- (2) Be of societal value in that system sufficient to merit
 - (a) 17 year injunction;
 - (b) damages;
 - (c) reasonable royalty;
 - (d) damages and royalty multiplied up to three times.

The Congressional focus was of course upon discrete items of conceptual knowledge, each one of which is important and valuable for only those would merit the burdens of patent application procedures at several thousand dollars a crack, would merit 17 year exclusive rights and would merit trebled damages against the infringer.

Deciding that a selected few categories of important concepts of technology would, if published, be entitled to 17 years of exclusive right and to trebled damages, and so expressing, was not in and of itself a nonexpressed Congressional decision with respect to technology which did not so merit 17 years and multiplied damages.

Congress decided in the patent statute, to leave outside of 17-year-and-treble-damages patent coverage, important true inventions made here which happen to have been disclosed in a Chinese language publication circulated only in Peking 366 days before the patent application date.

That decision, expressed by Congress in 35 U.S.C. § 102 to leave that important invention without a patent, was

not a nonexpressed decision that John Doe (who later invents the same invention in Iowa) may not lawfully contract with Richard Roe for development of that invention, in a contract by which Roe sweats blood and money for a year in exchange for a piece-of-the-action on Doe's unpatentable invention, the piece-of-the-action being a royalty on production if the item succeeds in the market.

Congress decided to leave out of 17-year-and-treble-damages patent coverage, not only Doe's re-invention, but Roe's development of the dimensions of the parts and the jigs for easy manufacture where the product will be both reliable and expensive. For if Roe or Roe Company spends a million dollars on the development, the progress of the useful arts is very well served indeed — and Congress certainly did not want to squelch progress of the useful arts.

Congress' non-expression is equal whether Doe or Roe filed an application for patent or did not file an application for patent.

The most meticulous examination of all the legislative history of all our patent statutes makes it clear that Congress *did not consider at all* whether or to what extent or on what terms technology outside the patent's coverage might be contracted for development, or might be contracted to be taught to others, much less what consideration might be paid for such contracts.

And a "piece-of-the-action" in such development contracts, surely is *the* consideration that is as American as apple pie and Chevrolet.

As elsewhere herein developed, know-how is of social value of the same or perchance greater order of magnitude as patents — tremendously important to society. Would Congress have *knowingly* obliterated such values — with silence — when it wrote prolifically on the limits and terminations and waivers and losses of patent rights?

Beyond doubt, when Congress wrote its very expressed decision about the select group of concepts it decided would

be part of a patent system, it did not make any nonexpressed decision on such as

a contract for development of know-how in exchange for a piece-of-the-action not tied in term to either patents or secrecy.

Congress did not address in the patent statute the difference between that contract or any know-how license and the Aronson license to Quick Point.

VII.

THE DIFFERENCE BETWEEN THE KEY HOLDER AND COMPLEX TECHNOLOGIES IS THE KEY TO A RATIONAL PATTERN OF LAW. — WITHOUT PATENT LAW PREEMPTION

Consider the law of implied confidential relationships, founded as Mr. Justice Holmes said,¹² not on the concept of property but upon the fact that the law makes some rudimentary requirements of good faith in business dealings. — As it should.

A discloser may have received the disclosure in such a circumstance that the law will imply an obligation of confidence with respect to the disclosure. But for what term?

To what ever extent the confidentiality is in truth destroyed by the information not only instantly available from the marketed product but of such nature that its value would be appreciated by competitors desiring to use it, to that extent the implied obligation to keep the destroyed confidence must die. The law must release any obligation to keep the design parameters of the key holder secret effective upon its general marketing, while not releasing the obligation to keep the confidence of the internal parameters of the jet engine upon its marketing. For the law's

¹² *Dupont v. Masland*, 244 U.S. 100 (1917).

implied obligations must be consistent with the real world facts, as fully as possible.

Further, the nation has a tremendous public interest in preserving the incentives to spend the truly big money necessary to develop the detailed parameters of high technology products and processes; and that interest can be served only if the law provides an adequate climate for that technology to be marketed.

. . .

But does any of that impact at all upon *express* contract obligations (1) to keep the confidence, (2) to pay royalties, or (3) to refrain from use of the information? We must address these one at a time, because each is different in its role in commerce and in law.

An express contract to keep the confidence should commonly be enforceable even after the confidential information is no longer secret.

This topic is included for completeness of the pattern. But it is not directly the subject of the present litigation. So we pass it with this short note.

The licensor's most valuable secret from its nonlicensee competitors, is commonly which of the nonsecret items of knowledge it is using or not using.

Thus, though the concept of a CO boiler is common knowledge in the oil refining industry, a licensee's keeping confidential that a company is no longer using a CO boiler may be very important commercially, both in competitive operations and in competitive offerings of know-how licenses.

Further, by the nature of the mix of information in know-how packages, a mix commonly including all degrees

of strong and weak patents and gradually dissipating secrets, a grantor should not be burdened with litigation proofs of when and to what extent the confidentiality of the package has or has not dissipated.

Finally an ongoing obligation in a licensee not to tell others, i.e. to keep the confidence, has no significant adverse effects upon any public interest.

This, however, is a different obligation from an obligation to pay royalties, and different also from an obligation not to use elements of know-how.

An obligation not to use information after it has become not only available from a public source, but available in a form where its value will be appreciated by the industry, has some anticompetitive aspects; but the patent law does not address them; only the antitrust law does.

Consider the Aronson key holder, as our example this time.

What social purpose would be served had Quick Point contracted that after five years it would no longer make the key holder, even though no patent issued and no secrecy then remained?

There then is no patent right to preclude Quick Point from making the key holder. There then is no trade secret right, and no obligation of confidence.

The contract right to preclude Quick Point from manufacture, might well in some other industrial context produce a quite significant anticompetitive effect.

But is that the focus of the patent law? Or of the antitrust laws?

In all the legislative history of all our patent laws, there is not to be found anything that can realistically be called a sentence's worth of affirmative legislative address to producing competition in already available products or processes.

The whole legislative intent was to limit competition in the brand new useful art concept for a special public interest reason, to produce competition in research and development of new products and processes.

An entirely separate body of law and thought has exercised the focus of attention for competition in presently existing products by comparison with competition in producing new and improved products.

35 U.S.C. § 261 says that either a patentee or an applicant for patent

"may grant and convey an exclusive right under his application for patent or patents, to the whole or any specified part of the United States."

If Congress had been paying any attention to obligations not to use the subject matter of an abandoned application for patent, there was certainly a wonderful place to express it, but Congress did not.

So the anticompetitive effects, where they exist, of party A agreeing not to use disclosed information after it becomes nonsecret was not addressed by the patent law. It is addressed only by the antitrust law as was held by the Texas Supreme Court in *Wissman v. Boucher*, 240 S.W.2d 278 (Tex. Supreme Court 1951) where the court said at p. 280:

"However, the existence of the contract or agreement not to make the article [a collapsible fishing pole which had fully disclosed itself upon first marketing] . . . is

essentially the same as an agreement not to compete. Clearly it was in restraint of trade and therefore not enforceable if unreasonable in its terms. Restatement Contracts, §§ 513, 514. Restraints of trade unlimited as to both time and space are generally held to be unreasonable . . . No reasonable social interest appears to be served by allowing the plaintiff to restrict the defendants in [making and selling the nonsecret collapsible fishing pole]."

But the obligation not to use the information is markedly different in effect, from the contract to pay royalties.

An obligation to pay royalties expressly entered into, was not addressed by the patent law.

If the Quick Point license is to be reformed, it must be reformed under the principles of equitable reformation.

Rational men will on occasion make bad deals. It is at least extremely doubtful whether the courts should attempt to correct all bad deals under any theory of law.

But to be sure, the patent law did not address bad royalty deals.

Though assignments and licenses of patents and applications for patents are authorized in the patent statute, 35 U.S.C. § 261, no mention is made of royalties for either. No mention is made of any cut off of royalties for either.

No legislative history on royalties is to be found in the patent law legislative history.

What about the law of equity?

" . . . where the mistake was not in any way due to the conduct of the other party, and the latter did not know a mistake was being made, equity may cancel the contract if its enforcement will inflict on the party seeking rescission hardship out of all proportion to the

value of the other party's justifiable expectation interest" McClintock, *Principles of Equity*, Second Edition (1948) § 90 at 244.

The fact that the Aronson-Quick Point contract seems to us by hindsight to be a bad deal, coupled with the fact that the law for correcting bad deals is the law of equity not before this court on certiorari, hardly seems to justify Quick Point's:

"Save me from my deal by patent law preemption".

To stretch patent law preemption to such a contract as this, is to use the sledge hammer to kill a fly perched on some of society's finest economic motors — the technology market place that will be put to shambles by the sledge hammer of patent law preemption.

For the public is enjoying competition in production and sale of the Aronson key holder, and sufferith not.

Society, on the other hand, truly needs the freedom of industrialists to contract for technology transfer at prices they arrive at at arms length, for a piece-of-the-action unhampered by the circumstance that batches of the technology pass from true secret to nonsecret and from patented to unpatented in erratic unpredictable patterns almost totally unrelated to the value the buyer gets for his purchase.

But should not *Brulotte v. Thys*, 379 U.S. 29, 85 S.Ct. 176 (1964), be applied here? We suggest not.

The only mischief in the contract involved in *Brulotte v. Thys* was that the power of the patent had been used as a lever to extort considerations not related to the term of the patent. It was like a tying clause.

Phrases suggesting that such leverage is not authorized by the patent law, or not justified by the patent law, do

not change the act into one forbidden by the patent law, or change the wrong from one of antitrust law into a patent law. The patent law did not treat the subject at all, only the antitrust law did.

Because a sharp negotiator can easily fabricate a false record of apparent leverage in know-how as well as patent licenses, Courts should require clear and convincing proof of the improper use of leverage before finding a *Brulotte* violation. But any way you slice it, the *Brulotte* violation is philosophically an antitrust issue, there being no word in the patent law or its legislative history which touches the topic.

If by clear and convincing evidence, the *Brulotte* rule fits the Quick Point contract as a matter of improper antitrust leverage, then it should be applied; but that is not a matter of patent law preemption.

VIII.

THE PATENT LAW DOES NOT — AND SHOULD NOT —

PREEMPT FREEDOM TO CONTRACT FOR ROYALTIES IN ANY KNOW-HOW OR TECHNOLOGY CONVEYANCE

Clark Boardman Company's annual book, *Patent Law Review-1973*, published an article co-authored by the author of this brief which develops the history of the preemption somewhat fully. That writing was prompted by the Sixth Circuit's opinion that was subsequently reversed by this Court in *Keewanee Oil Company v. Bicon Corporation*, 416 U.S. 470 (1974). That writing also has other values in that it provides a reconciliation of the patent, trade secret and know-how law in the only way this writer knows to reconcile them consistently with the real world of technology economics, and a significant portion of the

philosophy of that writing seems to be reflected in this Court's *Kewanee* opinion.

Accordingly, that writing is appended hereto as Appendix B, and this brief yields to the Appendix B most of the scholastic discussions the preemption cases command for the present cause.

A few points, however, should be summarized here.

While Gibbons does not control the issue, its historical relevance give it interest, meriting mention

. . .

Supreme Court law of federal preemption of state law relating to technology transactions and protection, did not commence with this Court's opinions in *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting Inc.*, 376 U.S. 234 (1964).

A hundred forty years earlier, contemporaries of the Constitution squarely, head on, addressed federal patent law preemption of state law protecting technology by a state patent. — In *Gibbons v. Ogden*, 22 U.S. 1 (1824).

Neither *Gibbons v. Ogden* nor many of the thought provoking arguments presented to Mr. Justice John Marshall and the *Gibbons* court were cited to this Court in any brief in *Sears* or *Compso* or by this Court in its opinions. Indeed, this Court in *Sears* used a phrase suggesting apparent lack of cognizance of *Gibbons'* relevance or precedent.

The State of New York granted patents as did many states in the early days of our Constitution.

One such New York state patent was to Fulton and Livingston on the steamboat. Ogden matured to title to that patent, sued Gibbons for infringement by the use of steamboats crossing between New York and New Jersey. One

issue as to which the argument summary went on for some 40 odd pages of the original report of the case:

Does federal patent law preempt the New York state patent?

Answer by the *Gibbons* court:

The federal interstate commerce law preempts the enforcement of the state patent against interstate commerce.

And the state patent was left standing to be subsequently relitigated against intrastate commerce.

Why did John Marshall, activist and believer in strong federal government, not strike down the state patent as preempted by the federal patent law? He didn't say; but we can make one informed guess:

He may have felt the states should have concurrent power to promote the progress of science and the useful arts along with the federal government.

Query: Is there a void where neither states nor Congress can act?

The Constitution Article 1, Section 8, says,

"The Congress shall have power . . .

To promote the progress of science and the useful arts . . ."

Does that expression suggest a preemption of the state from subsidizing research at its agricultural colleges? OR preempt the state from paying for medical research?

Assuredly, states have concurrent power to promote the progress of the useful arts in *some* manner. No court ever suggested the contrary, until *Sears* and *Compco's* implications came along.

But what of the Constitutional limit on the mechanism by which Congress's power can be exercised?

"* * * by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries".

The standard for inventions so patentable is sometimes said by this court to be a constitutional standard. The Congress is said to have no power to grant patents on inventions of a less-than-constitutional stature. *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273, 279 (1976).

The less-than-constitutional-standard-of-patentability technology¹³ surely is personified by the word "know-how", the accumulation, by routine engineering, of a set of compatible parameters by which to carry a concept into efficient use and public enjoyment (whether or not the concept itself is patentable). Surely that parameter-technology, not reachable by patents, is personified also by many if not most of the items called "trade secrets".

Powers not granted to Congress are of course reserved to the States. So if Congress does not have the power to issue patents on this lesser-order technology, then clearly the federal patent law did not preempt state law in this technology.

For the Constitution left no voids where neither the Congress nor the States had power.

* * *

¹³ Many judges and scholars have suggested that if the Congress' system is addressed to promoting the useful arts, then individual inventions protected might be measured by almost any standard without violating the Constitutional authority for a system to promote the useful arts. But that point need not be argued here.

*Patent law preemption grew
from a phrase into law,
without the economic realities
of technology as a guide*

* * *

As developed in Appendix B, the phrase "patent law preemption" of *something* (trademarks rather than technology) got itself insinuated into the verbiage of the law in some trademark cases where scholars have agreed it did not belong.¹⁴

Anyway, in context of those patents-preempt-trademarks cases, came *Sears* and *Compco*, two cases where the decisions below seemed to cry out for reversal on their merits as a matter of state common law. This Court had no power to correct erroneous state common law and grabbed the convenient handle on a federal excuse, patent law preemption, to reverse an error it disliked. — Much as plaintiff here argues for patent law preemption to save it from an obviously bad contract, correctable, if at all, under state equity law but not, we submit, under federal patent law.

Words are only the skin of a thought. When often repeated, even erroneous words take on acceptability that inhibits subsequent careful analysis of their basis.

So "patent law preemption" was expanded and reapplied in subsequent years.

With full honor and respect for the Court, we ask whether it is not fair to observe: Essentially none of the know-how market-place economics reported in this *amicus* brief, ap-

¹⁴ The correct result in those cases was properly reachable in those trademark cases by the application of sound trademark law that a term which has gone generic should no longer be protectable as a trademark; but whether or not an item may have been covered for a time by a patent hardly bears on the issue of what was a lawful brand name or trademark.

appears in the trial record here and none of it was before this Court in evidence or in brief when this Court wrote any one of the modern chain of patent-law-preemption cases, *Sears Roebuck & Co. v. Stiffel*, 376 U.S. 225, 84 S.Ct. 784 (1964); *Compco Corp. v. Day-Brite Lighting Inc.* 376 U.S. 234, 84 S.Ct. 779 (1964); *Brulotte v. Thys Company*, 379 U.S. 29 (1964); *Lear Inc. v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902 (1969); *Goldstein v. California*, 412 U.S. 546, 93 S.Ct. 2303 (1973).

Nor has any brief in any of those cases which are said to bind the Court now, turned up any evidence that the Congress, when addressing the patent law,

gave any affirmative consideration whatsoever to preemption or to the scope thereof;

gave any consideration whatsoever as to what technology, if any, should be free of royalty obligations by express contract, or free of obligations not to use.

As this Court observed in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) Congress enacted the patent law in context of an established and uniform recognition of freedom of parties to contract for technology both in the form of trade secrets and know-how, and Congress spoke not on such matters.

Suppose Kewanee had filed three or four applications for patents, had suffered the common fate that the allowable patent coverage some foreign language publication or the like would preclude from commercially effective coverage, and had therefore abandoned its applications for patent.

Should Kewanee's election to "involve" the patent law change Kewanee's right to protection or to contract — by the theory of patent law preemption? What is evil about the option in a technologist to seek and obtain patent pro-

tection being an add-on value with no hidden and unspoken sacrifices by the applicant?

Why not let the applicant *rely* on what Congress *wrote*, that if he accepts his patent he must *publish* a disclosure of the concept sufficient that others may carry out the invention; but if he does not elect to pay the final application fee, his application is "abandoned", 35 U.S.C. § 151, and thereby "kept in confidence" 35 U.S.C. § 122.

The Congress *expressed* that option for the applicant, the courts should not take it away from him under the guise of something the Congress did not express.

But the Court in *Sears*, *Compco*, *Brulotte*, *Lear*, (and *Goldstein's dictum* on subject matter not briefed to the Court), developed and expanded a patent-law-preemption theme so far as to compel the Sixth Circuit's patent-law-preemption-of-trade-secrets ruling in *Kewanee Oil Company v. Bicron Corporation*, 478 F.2d 1074 (1973).

On certiorari of *Kewanee* this Court for the first time had access through the evidence and through the *amicus* briefs to at least a small bit of the reality of some economically important aspects of unpatented technology, namely truly secret concepts and processes on which perhaps no patent application was filed?

Kewanee involved truly secret technology for growing scintillation crystals. Truly secret technology, whether or not the subject of applications for patent, benefits society and is of tremendous economic importance to the nation just as is true with each patent and know-how technology which are so definitionally intermixed with it and with each other.

All of the arguments for finding no preemption of truly secret technology, as in *Kewanee*, are applicable to know-

how with its commonly unavoidable mix of trade secrets and patents and detailed dimensions and other parameters.

And in *Kewanee Oil Company v. Bicron Corporation*, 416 U.S. 470, 94 S.Ct. 1879 (1974) the there-better-informed Court correctly found *no* patent law preemptions of trade secret technology, contrary to the theme of the prior cases.

This Court's own opinions suggest that the Court must not here extend a doctrine to upset an established status quo without empirical data here unavailable.

In a case involving the public policy of invention-title, the Supreme Court stated:

The courts ought not to declare any such policy; its formulation belongs solely to Congress. * * *

These are not legal questions which courts are competent to answer. They are practical questions and the decisions as to what will accomplish the greatest good for the inventor, the government and the public, rests with the Congress.

We should not read into the patent law limitations and conditions which the Legislature has not expressed. *U.S. v. Dubilier Condenser Corp.*, 289 U.S. 178, 198, 53 S.Ct. 554, 561 (1933) (emphasis added).

It is clear beyond peradventure of doubt, that the "Legislature has not *expressed*" patent law preemption of the freedom, expressly to contract to pay piece-of-the-action royalties for know-how be it unpatented or unpatentable, or secret or unsecret, or any other know-how.

The freedom of parties to contract for the conveyance of any know-how for royalties (with or without trade secrets

or patents) has a history uninterrupted in the hundred-year growth of the United States to be the technological leader of the world (at least until recently), and has a history in which billions of dollars are now invested. That fact brings to mind the weighty admonition of Chief Judge Cardozo in *Color v. Corn Exchange Bank*, 250 N.Y. 136, 174 N.E. 883 (1928):

"Not lightly vacated is the verdict of quiescent years."

Here the verdict has stood for over a hundred quiescent years and supports now a technology activity in the billion-a-year range.

A court with only the special circumstance of its plaintiff and defendant before it, and no national economic data or industry practice information before it, should not devastate such an established business practice as the freedom to contract for technology for a piece-of-the-action.

Recently in *Gottschalk v. Benson*, 409 U.S. 63, 93 S.Ct. 253 (1972) and this year in *Parker v. Flook*, U.S., 98 S.Ct. 2522 (1978), this Court wrote that it should not extend patent protection to new areas of useful arts without a clear indication from Congress which had better access than the Court to the empirical data necessary for sound judgment.

Here we already have a very large, nationally vital institution, the inducement of capital into high-technology developmental work on concepts which very soon after contract time, if not largely so at contract time, tend to become relatively nonsecret and nonpatented.

Surely it would be national folly to debilitate that existing and nationally vital societal motor-force for technology at a time of crisis-level technology shortage, without the

kind of empirical data that can only come from legislative staff investigations, publication of proposals for critical study by industry, public hearings of those who know the effects upon them and the national economy, revisions of the proposal, etc.

The sole thing that is clear, is that state approval of contracts for royalties on unpatented, unpatentable, secret or unsecret — you name it — is not

“an obstacle to the accomplishment and execution of the full purposes and objectives of Congress”¹⁵

when enacting Title 35 U.S. Code

“to promote the progress of the useful arts”.

Respectfully submitted

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¹⁵ Kewanee Oil Company v. Bicron Corporation, 416 U.S. 470, 480 (1974).

APPENDIX A

Dollar Significance of Unpatented, Accessible Technology

Precise, reliable figures on the flow of dollars under express contracts for the transfer of technology, the elements of which are no longer (or perhaps never were, in part) either patented or rendered nonaccessible by secrecy, are not available.

There are many reasons for this nonavailability of precise figures.

One is the circumstances that many high technology know-how licenses are unavoidably composit licenses of know-how, trade secrets and patents wherein an allocation in precise dollars, to the know-how vs patent aspects of the license, is simply not possible.

A second reason is that very often the confidentiality of a licensed package of know-how can be and is depended upon at contract time to dissipate in erratic and unpredictable patterns (which are almost totally unrelated to the value the licensee gets when he needs an assembled package of reconciled know-how, warrantable to be essentially bug-free and capable of producing X quantity or Y quality product at Z cost and commencing by a date specified).

New conceptual inventions tend at first to be trade secrets while developmental and patent application work progresses, tend in time often to have that secrecy dissipate whether or not patents are issued, and tend to remain a part of packages of detailed parameters and operational know-how irrespective of patenting or of dissipation of secrets. So the definitional intermix of the three items, patents on concepts, trade secrets, and operational and design know-how packages, confuses any effort to put precise dollar figures on the one as against the other.

Further, know-how is very often sold for speculative values in equity participation, rather than for royalties or dollar payments. Such transactions of course do not ordinarily appear in economic data. Many of the major transactions are in royalty-free exchanges of data with no dollars attached at all, and these too are largely omitted from statistical studies. Further, payments for non-secret know-how are commonly intermixed with payments for other values ranging from secrets to patent licenses to training of the licensee's personnel.

Accordingly, it is impossible to gather precise figures on the dollar volume of non-secret unpatented know-how conveyances by United States industry. But as a rough estimate the billion-dollar-plus order of magnitude is reliably available from a number of sources, such as Department of Commerce studies of sources of international balance of payment credits, extrapolation from footnote 7 from the Second Circuit's *Painton v. Bourns*, 442 F.2d 216, 224 (CA 2d 1971), etc.

The Survey of Current Business, U.S. Department of Commerce, Vol. 58, No. 3, March 1978, reports identified balance of payments credits from foreign licenses of technology totaling \$4,376,000,000.

It is believed that those figures for the most part do not reflect the values in the quite common transactions by which equity in a fledgling company is exchanged for know-how. For example, one major oil company helped set up a large number of companies in foreign countries in the last 20 years, by providing know-how to match foreign capital and got 50% of the common stock in the new company — and the values in those types of equity transactions are largely omitted from the figure sources. We have no source of figures on those values; we do know that the know-how

was very largely unpatented in the subject countries of the license.

The data base also tends not to reflect the values of the barter type of exchange of technology for technology of unstated dollar figure.

The exact portion of the five-billion-plus-a-bunch annual income we can trace to unpatented know-how rather than patents is unknown, but many persons who work in technology licensing believe that the license value of internationally unpatented technology is much more significant than the license value of internationally patented inventions. Domestically, a great deal larger portion of license income is based on U.S. patents and a relatively lesser portion on unpatented know-how.

A study of the relative importance of income from patent licensing and from know-how licensing is described in *Comparative Income Roles of U.S. Industrial Property Rights Licensed Abroad*, 14 IDEA 352, Fall 1970. This study is informative, but because precise figures are not available to anybody, including its authors, it does not provide precise answers.

Responsible reviews of the above figures and of the various extrapolations which can be made only by the informed guess of those who work regularly in know-how licensing, compel the conclusion that an order of magnitude of a billion dollars for income to the United States under *international* licenses of unpatentable or unpatented know-how is a plausible figure.

To that billion must be added an unknown but very substantial value in domestic licenses, where the percentage of the value allocable to patents is much higher than in international licenses.

If one capitalizes the annual income to an asset value, the present asset value of U.S. *licensed* know-how is in the order of magnitude of several billions of dollars.

And the still unlicensed know-how far exceeds the licensed know-how. Much of the still unlicensed know-how is ripe for inducement into license by favorable law and policy.

• • •

The final extrapolation of significant interest here: How much of the know-how is truly secret by comparison with being available by routine engineering from public sources of information? The clear and positive answer: Most but not nearly all of it is available by good engineering from public information sources.

How much of that know-how is "secret" turns in major part upon your individual subjective definition of "secret". The *concepts* involved tend often not to be secret; only the *details* of dimensions and process parameters like temperature, pressure, degree of acidity, % of material X or Y, tend to be commonly secret.

The majority of licensed know-how is not in the nature of an entire secret concept for doing X, as in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), because the process ideas and concepts tend, in those environments which are rich with competitive research by many companies, to be published in some patent or by a competitive researcher elsewhere. This publication commonly occurs pretty soon after first commercial use or even before.

But even where the circumstance is that all the conceptual elements of knowledge are readily available from public sources when once someone has outlined the material

to look for, the cost of trying 100 publicly available alternatives and figuring out which ones *not* to use (in context of such as a choice of acidity of slurry, or of centrifugal or gyroscopic force, or expensive vs. cheap metallurgy, etc.) is very important technology to develop, thence to use and market at a profit. For if it cannot be used and/or marketed at a profit, no one can or will invest in that development and the public welfare suffers.

The biggest and most valuable of "secrets", frequently are the secrets of knowing what publicly available information is not good to use. But the vast majority of know-how is in the nature of a detailed set of parameters of dimensions, mix percentages, temperatures, pressures, by which to carry out publicly known concepts.

This detail is secret in the sense of being not published; and if another engineering group set out to engineer a plant, complex product or process, that second group would come up with some often-significant differences.

But another engineering effort would be expected, with some cost and time overruns, to accomplish essentially the same end result with somewhat similar though surely not identical details. In that sense, though subject to the very significant variations that exist in engineering experience and talent, the public has access for the price of a good engineering job to the power to use information to the same end result.

Perhaps the key point on this last discussion: Any legal line drawn between what is secret and what is not secret among know-how, is going to join the group of legal lines that are difficult for courts, lawyers and their clients to follow. And as to royalty payments openly agreed to — a piece-of-the-action contract — why cannot the law trust the parties' deal to be not excessively antisocial?

B-1

APPENDIX B

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SHADOWS DO NOT FIGHT

A COMMENTARY ON *KEWANEEOIL* v. *BICRON CORP.* RECONCILING TRADE SECRET AND PATENT LAW †

TOM ARNOLD AND BILL DURKEE *

I. Introduction

"We must be especially wary against the dangers of premature synthesis, of sterile generalizations, unnourished by the realities of law in action."

Mr. Justice Frankfurter

On May 10, 1973 the Sixth Circuit in *Kewanee Oil Company v. Bicon Corp. et al*, 478 F.2d 1074, 178 USPQ 3, reversing a hundred years of established law, wrote to the effect:

"Policies" of the patent law, Title 35 of United States Code, preempt the trade secret, breach of confidence and contract law's protection of all technology which has been in commercial use for one year and is subject matter appropriate for patent.¹

The clear effect of the ruling is:

(1) There is no protection of *any* technology² which has been used for a year except that afforded by patents.

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¹ The court expressly declined to consider the broader question of whether "... any and *all* state trade secret law [i.e., insofar as it reaches subject matter *inappropriate* for patent law treatment] conflicts with the policies of the ... Patent Laws", limiting its ruling to the patent law subject matter because that was the only portion of the trade secrets laws ... applicable to this case.

² There are expressions in the opinion which admit to argument that preemption reaches only inventions patentable under §§ 102-103 of 35 U.S.C., i.e., reaches only to inventions not obvious to men of skill in the art in view of all the world's prior published art, while leaving trade secret law standing as to secrets which would be obvious to men of skill in the art who were cognizant of the sum total of mankind's prior published knowledge.

This author and many others have read the opinion as a whole to preempt the much broader area, the subject matter within 35 U.S.C. § 101, i.e., "Any new and useful process, machine, manufacture, composition of matter, or any new and

(2) Employees, subcontractors, know-how licensees, labs which do R & D work by contract for others, are all free to violate their contractual obligation of confidence with respect to the technology others have paid for the development of.

Never have so many persons had their arrangements nullified by so few.

Harshaw Chemical division of plaintiff Kewanee Oil, alone among all its competitors, knew the process techniques by which to grow 17 inch scintillation crystals. Twenty of the techniques, in use for over a year, though not patented were within the patentable class of subject matter under 35 U.S.C. § 101 and were protectable as trade secrets under Ohio law. The six individual defendants were all former Harshaw employees, bound by employment contracts, each with a particular skill in some aspect of the secret crystal-growing process. Some had left voluntarily, some involuntarily. While Harshaw had needed 16 years of R & D to turn its unique trick of growing 17 inch crystals, defendants turned the same trick in nine months. Said the court:

"There can be no question on this record but what these individual defendants appropriated to the benefit of Bieron Harshaw's secrets, processes, procedures and manufacturing techniques."

useful improvement thereof." Clearly a preemption of this section 101 scope is generic to essentially all applied technology having value, to all technology whose valuable uses have been determined sufficiently for it to be the subject of the contract forms referred to in Section II hereof.

Here note that a typical know-how license for a chemical plant would involve thousands of applied technology details, both broad and narrow concepts. Further patentability determinations on inventions clearly within § 101 but arguably not patentable under §§ 102-103, commonly cost years of time and significantly over \$2000 in Patent Office proceedings, and more years and commonly over \$200,000 in the courts.

It simply is not feasible for society to purport to require expenditures of thousands of dollars times thousands of items, i.e., millions of dollars plus years of effort by highly trained engineer-lawyers, to determine the § 103 patentability of all details. The system must find a way to function wherein patentability determinations are made only as to inventions given the broad protection of patents against all 210 million Americans plus foreign operations in the U.S., and are not made as to know-how which is protected only as against a thief or a discloser who would breach a trust.

The total social cost of the patentability determination inherently limits the patent system feasibility and efficacy to inventions of broad commercial application having big dollar importance; patents are totally unfeasible as applied to masses of more detailed inventions of narrow application.

—And in violation of their contracts.

Held: Patent law "policies" (not statutory expressions) preempt such contracts and all trade secret law applicable to these facts; plaintiff's complaint dismissed.

There can be no question but that the court wrote a whole new section of the Patent Act, Title 35, which when shortened for simplicity purposes here, reads essentially:

"Contract, tort and property law protections of trade secrets expire one year after commercial use."

May we call that section X99 of Title 35?

Such a startling decision, writing a wholly new recitation into the Patent Act, commands a book including chapters on:

(1) Contract types and dollar value, invalidated by *Kewanee's* new 35 U.S.C. § X99. For many contract types were not before the court nor shown to have been considered, either in concept or their billion dollar value.

(2) The pragmatic difference between, and *non-monopoly* character of trade secrets, compared to patents. For the *Kewanee* court, like the writings of Mr. Justice Black before it, speaks and apparently thinks of trade secrets as monopolies, which is a totally false premise.

(3) The vital role trade secrets perform in *contributing* to needed progress in the useful arts. For the *Kewanee* court erroneously suggests that trade secret promotion "would impede the progress of science and the useful arts."

(4) Public policy favoring honest and good faith business practice. For the *Kewanee* court seems to worship free and open competition with a competitor's expensively developed technology, as the one true god at whose altar all other social purpose must be sacrificed without even a favorable comment.

(5) Treaties (which cannot be preempted) establish a federal law of good faith business practice.

(6) The legislative history of the Patent Act. For the *Kewanee* court construes the Patent Act to preempt, without considering the contradiction by its legislative history on the preemption point.

(7) The "legislative" history of the preemption concept as it has grown in the case law. For preemption has developed as erroneous, unanalyzed dictum in nontrade secret cases where the economic significance of trade secret law and practice was never before any court.

(8) The merits of the legislative process by contrast with the judicial process for basic new changes in thoroughly established law upon which industry has built billion-dollar investments. For the *Kewanee* court without analysis of industrial practice or reality acknowledges that decisions contrary to *Kewanee* are to be found in most states, most circuits and the Supreme Court, and that four circuits have since *Sears* and *Compco* concluded contrary to the *Kewanee* construction of *Sears* and *Compco*. Further, the *Kewanee* court acknowledges that the issue of patent law preemption in the field of invention protection has never in 183 years been directly presented to the Supreme Court—which shows enough sociological reliance upon the established rule as to bias now toward change of it only by legislative process.

(9) The nature of the various intellectual property law rights-to-exclude, each standing in the light of its own social purpose, each casting its own shadow of its own scope and premises and term—shadows of social purposes which do not fight each other, shadows which permit one right-to-exclude to begin and expire without affecting the other rights-to-exclude.

These topics will be treated seriatim, as separate chapters.

II. Contract Values and Types Invalidated by *Kewanee*

Common contract forms in widespread use in industry which are essentially devastated by the *Kewanee* rule of patent law preemption of contracts, include these:

A. The Contract for R & D

Companies commonly contract, perhaps at the hundred-million-a-year rate in the aggregate, for outside R & D work by independent or university labs. A typical contract, shall we say for research into how to grow large crystals, might read:

"Company shall pay \$500,000 for R & D by Lab. R & D Lab shall disclose the results of R & D to Company. Neither R & D

Lab nor its employees shall disclose the results Company paid for to competitors or use the results competitively for ten years."

Since contracts for obligations of confidence are preempted, by *Kewanee's* new 35 U.S.C. § X99, that last clause is a nullity. The R & D Lab's employees are free one year after a commercially important idea is placed in use, to use the information in a commercial frolic of their own. If the Lab's employees can do that, indeed the Lab itself after a year's use can disclose the results to competitors perhaps for a little cash, or can set up a subsidiary to compete with the customer for whom it did the work.

Query: Who could afford to contract for outside R & D, if the cream of the results are open for free appropriation by the Lab's employees and/or the lab and/or competitors learning from either of them, within one year? If R & D buyers cannot buy, what happens to all the nation's companies who do R & D work on contract? They go out of business. What then happens to the progress of technology?

B. Subcontracts

Subcontracts for manufacture by a subcontractor, with proprietary know-how of another, are entered into regularly in our society, perhaps at the rate of tens-of-millions a year. Example:

Company in its own R & D work develops a process for making carbon black which uses a unique new autoclave reactor with toroidal flowing gases. The reactor developed in the R & D is proven-out by a year's commercial operation. Company now wants to equip all its plants with the new autoclave reactor. Since Company is in the carbon black business with no facilities or know-how for economic autoclave reactor manufacture, it costs Company \$50,000 to make a reactor of uncertain life; but Subcontractor which is in the autoclave reactor manufacture business and is set up for that kind of work can make and guarantee them at \$35,000 each—provided it is given the secret process-specifications Company has developed. The contract typically takes the form:

"Company discloses detailed process-specification for new secret reactor to Subcontractor. Subcontractor agrees to make 150 reactors at the rate of one per week, at \$35,000 each pursu-

ant to Company's specifications. Subcontractor agrees to keep the specifications secret and to require that its employees keep the specifications secret and not use any of the disclosed specifications for their own or another's account."

But the subcontractor's employees cannot, under *Kewanee's* 35 U.S.C. § X99, be bound by the last sentence of the contract. Nor can the subcontractor. Once subcontractor knows the specs, he is invited by the *Kewanee* law to seek in one year to sell the new reactor to all carbon black manufacturers.

Under the *Kewanee* rule, everybody must inevitably avoid as the plague any subcontract of proprietary type work, lest the act of subcontracting effect a publication of the secret specs to all competitors. Thousands of small businesses which live on subcontracts, must die.

C. The Employee Contract

For the reasons inherent in what has been outlined above, hundreds of thousands of engineering and R & D employees are bound by existing contracts with thousands of employers, not to disclose their employer's trade secrets to others. The assets so protected are multi-billion dollar values.³

By the square holding in *Kewanee* those obligations of confidence are void as to technology in use for a year.

A very important point inherent in this result which was not acknowledged by the *Kewanee* court: The *Kewanee* rule not only opens the door, it affirmatively invites one business's disruptive raiding of key employees of competitors on a regular, planned basis. How much such raiding will in fact occur is a speculation for the future time when, if ever, the *Kewanee* rule becomes accepted law; how debilitating that raiding will be to business is necessarily also conjectural. But clearly, business can not well and efficiently serve society's needs for goods and services and progress in the arts if there is massive employee raiding and no employee stability among those who do the big R & D projects.

Another point: Many businesses now encourage their employees to learn all they can about the technology of their prod-

³See Appendix A.

uct line, believing that the salesman is a better salesman if he knows, the vice president is a better vice president if he knows; the service man is a better service man if he knows, etc. But every raidable employee is a potential leak. If none of them can be trusted to keep the secrets, then businesses must bias their internal practices toward insulating all employees from knowledge he does not have a direct important need to know—with resulting loss of efficiency throughout the enterprise, with loss of the values of cross-fertilization of thought among technologists, etc.

D. The Know-How License Contract

Technology within the *Kewanee* rule is a commodity bought and sold in the market place primarily by the device of the know-how license.⁴

The total payments for know-how licenses run in the millions-a-day, billions-a-year orders of magnitude.⁵

Individual licenses for chemical processes and plants therefor have in the decade of the 60's gone at prices quite often in the multi-million dollar range.⁶

But under the *Kewanee* rule, to offer to sell your know-how, to offer a license for valuable know-how at an appropriately big price, is an invitation to your offeree to come raid for key technical employees, thereby to get for a couple of \$25,000 bonuses to the key employees what otherwise would cost perchance several hundred thousands or millions in a know-how license.

⁴Here note that the bulk of the value in know-how licenses commonly is not in concept, truly "secret" information.

For example, all the essential elements for the manufacture of polyethylene, carbon black and many other chemicals, are now published in the literature including patents. But the wheat elements of information are relatively few and are scattered among and lost in a mountainous haystack of chaff information.

In the haystack of mankind's technological knowledge that is an impossible data retrieval problem, the publicly available items of knowledge are not evaluated as against the hundreds of alternative suggestions also available. The reading of an item of information in a publication does not give the reader the kind of value judgment that experience in use of the item in several contexts and various parameters gives. The essence of know-how is the experience-value-judgment added onto the otherwise sterile knowledge of the concept.

⁵See Appendix A.

⁶See, for example, *Imperial Chemical Industries, Inc. v. National Distillers and Chem. Corp.*, 342 F.2d 737 at 744 (2d Cir. 1965) where Toyo of Japan had agreed to pay about \$6,000,000 for information on how to build a polyethylene reactor

Under the *Kewanee* rule know-how licenses can never again be offered freely in the market, can not move in the market place at prices commensurate with the value of the know-how. The foundation stone of all economies, that you cannot get something for nothing, tells us that if the know-how cannot be sold for its value, the incentive to produce it must deteriorate, the commitment of capital to R & D must diminish, the progress of the arts must decline.

E. Access to Foreign Technology

United States now pays sums approaching the order of one hundred million dollars a year for foreign technology within the *Kewanee* rule.

But a foreign owner now knows that if he licenses a U.S. licensee, the employees of the U.S. licensee cannot be bound to honor the obligation of confidence—nor thereby can the U.S. licensee be held accountable.

For a German company to license, shall we say Bethlehem Steel Company, in the know-how for manufacture of unique electric steel alloys, is to have a Japanese, French, British and five other U.S. companies all raid Bethlehem's key employee group as fast as they learn, thereby to compromise essentially the entirety of the German licensor's know-how. *Kewanee* forces the German company to refuse to license U.S. buyers of technology.

Moreover: The raiding by the several of the employees of the one licensee, Bethlehem, may conceivably be faster than the Bethlehem employees' learning rate. So Bethlehem, the licensee in our example may never get effective operating knowledge of what it paid for, even if it could get the license.

The *Kewanee* rule is thus seen severely to deter U.S. industry access to foreign technology.

F. Know-How Sale to Foreign Purchasers, and our Balance of Payments Deficit

United States industry now receives payments approaching the order of magnitude of a billion per year, from foreign buyers of U.S. technology within the *Kewanee* rule.

At a time when the U.S. balance of payments deficit is buffeting the dollar and the entire economy of our nation, a billion dollar annual foreign credit from this source is of no small importance to the nation's capacity for economic competition with the family of nations.

But under *Kewanee* the potential foreign licensee will pay a few \$10,000 bonuses to key employees, set them up in Cleveland or Cincinnati teaching what they know, and get sometimes 80% of the same know-how they now pay hundreds of thousands and millions for.

The *Kewanee* rule would be a significant blow to the national effort to restore a favorable international balance of payments.

So far as appears, the court in *Kewanee* gave no consideration to any of the factors above, except the specific issue of employer-employee contract.

When the meaning of a phrase actually written in a statute is being interpreted, disregard of the economic impact of the construction may perhaps be justified.

But when as here the court is writing into the Patent Act a wholly new provision not in the statute, our "§ X99" that trade secret rights expire one year after commercial use, it behooves the lawmaker to hear evidence on and consider the economic impact of the new section it writes into the Act for the Congress.

As Churchill would say it:

Never have so many had their arrangements nullified by so few.

—Nor with so little of the total picture before the few.

III. The Legal Theory of Trade Secrets⁷

The trade secret law seems to have grown naturally out of tort, agency property and contract philosophy and social purpose.

⁷ This section deals with the trade secret as an extension of patent monopoly as opposing the patent as an extension of trade secret nonmonopoly.

I use the phrase "patent monopoly" because the court did, but this is not correct in pragmatic reality. And there is much mischief, when theorizing on public policy, in thinking of patents as being more monopolistic than they really are.

A patent by legal definition covers only things not before known or used, nor to those skilled in the art obvious from all that was before known or used. Hence, it takes nothing from the existing public enjoyment.

Until very recently no one ever questioned its social propriety based on a sort of writer's-choice of any one or more of these four grounds.

If it cost \$500,000 to engineer into a working process, the concepts of which were already disclosed in patent, trade journals and college texts, it was natural to property law concept that the party who spent the \$500,000 should own the technology it paid for.

If an employee were entrusted with his employer's confidential business information, it was natural to the tort and agency law concept that he be obligated not to breach the trust, the obligation of confidence.

If the information were licensed by contract to another company, so that it could avoid the risk of R & D failure, the time required for major developments, and the inevitable cost overruns, it was natural to the freedom of contract concept that the contract be honored. No evil was seen in a contract, "I'll pay X dollars for your secret and I won't tell anyone what it is."

Although trade secret protection is vital to proper sponsorship of progress of the useful arts,^{*} none of these social purposes out of which trade secret protection arose are quite the same as the copyright or patent social purpose to induce progress in knowledge and the useful arts. None of these socio-legal purposes had to do with trade or competition except as possibly happy incidents. They had to do with property and good faith and ethics and equity.

None of the socio-legal concepts had a time factor in them and no time factor is found expressed in the law (contrast the facts)

A patent, working in that context, only rarely monopolizes a relevant market. Bulova's patent on its Accutron tuning fork watch movement has great commercial value, but more nonAccutron than Accutron movements are still sold and Accutron movements must remain more price competitive than not. Polaroid's patents on instant snapshots are of great value; but more noninstant than instant pictures are still taken and Polaroid cameras remain more price competitive than not, with German, Japanese and other United States manufacturers. Xerox by its tremendously dramatic improvement in the cost/quality ratio over heavy-paper photostatic negatives and fragile heat-process Thermofax copies, enlarged the office copy market many many fold; but it seems an absolutely sure bet that there are now many more nonXerox machine copies made than were made by all the industry before Xerox so served the world with its lower cost copy.

Patents are not "monopolies" because the things they cover remain subject to competition from what the public used before as well as what competitors invent anew to stay abreast.

^{*} See Section IV hereof.

of trade secrets. Thus, in *U.S. v. Dubilier* the Supreme Court said at p. 186:

"He [the inventor] may keep his invention secret and *reap its fruits indefinitely.*"^{*} (Emphasis added)

As a parrot speaks without thought or comprehension of his meaning, so some have translated the lack of time factor in trade secret law into an allegation that a trade secret has no time limit, is in some way equivalent to a perpetual patent or to a monopoly, or that a trade secret "extends" the life of a patent. Nothing could be further from the truth.

The foundation stone of all trade secret *remedies* is a relationship between two parties, a discloser and a disclosee. —An obligation of confidence between a discloser and disclosee. In the most famous of United States Supreme Court trade secret cases, Mr. Justice Holmes reminded us:

"The word 'property' as applied to * * * trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. * * * The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that defendant stood in confidential relationships with the plaintiffs." *Dupont v. Masland*, 244 U.S. 100 (1917).

In trade secret law, the *relationship*, not the *res*, is the thing.

Thus the remedy in trade secret law does not control the technology, only the processes of derivation of the technology. It keeps the disclosee ethical. It keeps the know-how acquisitions both ethical and consistent with the inescapable hard realities of R & D economics in action, that he who pays must have a right to control and market what he paid for, else he soon can no longer pay for R & D. But R & D is open for all to enter.

The trade secret social purposes do not prevent others from using public sources of information, do not prevent others from developing the same new technology themselves and using it and also selling and licensing it. Frequently a number of companies are competitive bidders to licensing their technology for manufacture of the same product.

^{*} *U.S. v. Dubilier Condenser Corp.*, 289 U.S. 178, 186, 53 S. Ct. 554, 557 (1933).

As to each individual secret the obligation is commonly only of one or two people (disclosees), or four. Of hundreds of reported cases reviewed none has been noted to involve more than 10 disclosees (though some know-how packages are licensed to many buyers whose total informed employee group must sometimes exceed ten persons). *The remaining 210 million Americans and all billion or so foreigners remain free to develop, use and publish the same concept.*

This of course is not to say there are millions or billions of de facto potential competitors. Those people here and abroad have organized thousands of industrial businesses. By virtue of interest background, capital structure and geography, the number of for-real potential competitors may be only a dozen in some areas of technology. But both domestic and foreign businesses are dynamic, not sterile or static. They continuously search for and find areas of public need that can be profitably served. For social planning purposes they can be depended upon to leave no significant public need, long unserved. —Not if the need is important enough for a buck to be made in serving it.

This is a key point in the picture; every manufacturer assumes and knows in today's high paced world that *if his secret process or manufacturing jig is worth competitive pursuit*, his competitors will find it, or its equivalent, or its improvement, in a very few months or years. —Like two, four or ten months for any individual secret. Even for whole chemical-plant-process and related plant equipment, two, four or six years almost at the outside, and for all practical business planning purposes, essentially never longer than eight years. (Long term know-how licenses most commonly have continuing R & D service features).

So, de facto, trade secret protection is not only uncertain in time, it is short termed in time of protection in all but a de minimis number of cases involving surely less than one-tenth of one percent of technology value. It is essentially never monopoly power even for a few years. Law must not let so diminutive a tail wag the entire dog of technology practice.

And as to products which are placed on the market and are available for competitive purchase and reverse engineering, the competitive access is commonly almost instant and always pretty quick.

It was apparent even before Galileo's day that men would not

for long, yea could not for long, put their mind to making contrivances for the benefit of realm, if the results of their investment were not to be *better* protected than secrecy permitted.^{*1} The point then, as in our Constitution, clearly had not been to confiscate men's conceptions, to take away the personal property right of a man to keep his secret; it was to "secure" in him some rights *beyond* what his secrecy would normally afford him—for "securing" the otherwise uncertain protection would promote the progress of the useful arts.

The patent grant authorized by Title 35 United States Code is an effort at that.

Instead of the uncertain protection time of zero, two, four or six years which secrecy affords only in an erratic pattern of *some* instances, the patent grant is affirmative for 17 years for only the important inventions that qualify for patents, irrespective of secrecy. Instead of a trade secret right against the one, two or six disclosees, with the rest of the entire world's millions of people in thousands of industrial businesses (present and potential) free to develop independently, the patent right is against not only the 210 million people in thousands of businesses in our nation but also against all foreigners who would practice the invention in our nation (and foreign industry is very active in our nation).

The trade secret never inhibits the dozens to thousands of actual or potential businesses in their use of any merely *alleged* secret which is in fact publicly available, nor restricts competition in things already in the general public enjoyment, for there is no confidence to be breached if the public has general access to the secret. The trade secret is thereby inherently concerned with new things in process of being brought into the public enjoyment, and mightily *contributes* to competition at this vital threshold, the threshold of new technology.

The trade secret is thus seen to be not de facto a monopoly right. For it, its equivalent or its improvement is too available to too many potential competitors, whenever it is valuable enough to justify their effort. The more the commercial value, the quicker the competitor can be trusted to develop the same thing or take a license.

The trade secret is not monopoly oriented, but ethics and equity oriented.

^{*1} See Section VII and the text related to N. 17, *infra*.

IV. Trade Secret Theme Protection Is at Least as Important to the Progress of the Arts as Are Patents

The court in *Kewanee* quoted with approval writings on the alleged mischief of trade secret protection and wrote always consistently with an erroneous premise finding of fact that: Trade secret protection is inconsistent with progress of the useful arts and patents are the only inducement to such progress.

The court had no evidence on such a fact finding before it, no testimony of business men who budget R & D or buy or sell its resulting know-how, no testimony from technology economists. The court was indulging "sterile generalization, unnourished by the realities of law in action."

It seems a possibly interesting exercise to indulge some ivory-tower theorizing of our own by way of contrast.

Patent validity is determined by an unrealistic and harsh standard. Valid patents are limited to inventions which by judicial hindsight are held to have been nonobvious in light of carefully selected and juxtaposed portions of all the sum total of mankind's prior published knowledge. The selection and juxtaposition of the few items of prior art from the millions of prior items of knowledge is by use of the invention itself as the screening tool which separates out and arranges together perchance three needles of compatible knowledge from a mountain-sized haystack of chaff prior knowledge.

Three or four prior art ideas, scattered among all mankind's prior relevant and irrelevant knowledge, often do not jump forth together as compatible for a new inventive function. But a patent infringing plagiarist will take invention parts disclosed in the patent itself, and search for thousands of dollars worth of time to find and select those particular kernels of wheat information and screen out all the chaff information. Then when defense counsel puts them into physical juxtaposition before the judge, explaining just how they can be fit together, those same three or four prior art references then *appear* in that *hindsight* review to have been obvious to select and obvious to combine. When the defense counsel concludes his pitch, no judge can really separate himself from hindsight psychology and put himself into the art with the men who worked there as of years-earlier time.

By contrast the foresight-developer, upon whom society inherently relies to progress the useful arts, cannot ever really know and have mental mastery over all possible relevant prior knowledge ("prior useful art"). Yet he inevitably does have knowledge of tremendous masses of chaff art and little to guide him as to which of the items of art are the technically feasible items or whether if technically feasible they may be commercially economic to combine in his particular application.

So the foresight developer must spend many R & D dollars trying to select the useful needles he may not know of and may not believe are there, from the haystack of chaff art he does know of or have library access to, often without faith that an answer exists anywhere, without benefit of the patent infringer's certain knowledge that the answer both does exist and is economic, and without benefit of a screen for separation of useful from chaff knowledge.

Thus, inventions which are hard and expensive to make and develop are by the nature of the patent law quite commonly not protectable by that law.

These unprotectable inventions are the milk upon which society's technology lives. The patentable inventions, the cream inventions, are used to make frosting on an R & D budget or to reduce losses being suffered by an R & D budget. They are very important. But they are worth much too little to support all the economic requirements of new technology which includes many many more failures than successes.

Another point clearly misunderstood by the *Kewanee* court is this: Patents by their nature cannot and do not disclose all new technology; the patent is not a carrot that *can* fetch public disclosure of the mass of technology within 35 U.S.C. § 101.

The manufacturing specifications for each application of a patented concept may represent hundreds of thousands or millions of dollars' worth of engineering time¹⁰—distilled and developed know-how that others could develop from patent and text book disclosures but only at a similar cost in market lead time and money.

¹⁰ Many developments (e.g. see N. 12 *infra*) cost hundreds of millions of dollars.

This engineering detail is commonly developed again and again for each new application of the invention's concept, long after the patent application is filed, long after the patent issues, even after it expires. For example, the hydroelectric turbine applications engineering might be developed before the application for patent on the turbine concept is filed; and a steam turbine applications engineering might be developed while the patent application is pending; and the jet engine applications engineering might be done not by the patentee but by a patent-licensed competitor five years after the patent issues and again by yet a foreign competitor selling a much larger model in the U.S. five years after the patent expires.

Inherently, a patent cannot disclose the engineering detail for all applications of the inventive concept—no building in Washington would hold all the paper even if it existed at application filing time which it does not. Consistently with those pragmatic facts of life the patent statute requires only a disclosure sufficient to permit others in the art to carry out the basic concept. The patent statute requires a disclosure of the concept of *one* mode, i.e.,

“the best mode contemplated by the inventor of carrying out his invention” [inherently, at application filing time]. 35 U.S.C. § 112.

Other modes including the engineering details of such other modes, *by statute* need not be disclosed in the patent—many of them simply *cannot* be. The patent law does not purport to protect the engineering detail, the specifications producible by a number of engineers in the art once the concept is in hand. The patent law does not treat this know-how at all, one way or the other.

There can be no “conflict” with the patent law’s treatment of trade secret know-how, if the patent law does not treat of it at all, one way or the other.

A made-up but real-life example will make understandable the point that know-how protection by trade secret law, independent of patent law, is vital to progress.

Assume a 1968 reality that the broad concepts of internal com-

bustion turbine design ¹¹ are available to industry either from history at no significant cost, from the subsidized academic community again at no significant cost, or from prior government research, again at no significant cost. The concept was disclosed in patents in the thirties and had been successfully applied to military aircraft in the forties.

Project: Design a 1973-generation jet engine for the Lockheed air bus. It must meet new high performance specifications as to thrust, speed, fuel consumption, air pollution, noise, light weight, flexible controls, serviceability, service life, manufacturing ease and cost—on all of which the know-how is confidently stated to be “available.”

Even with the then generation of Pratt and Whitney and General Electric and prior Rolls Royce jet engines, used both on U.S. and foreign commercial and military aircraft, from which to draw such ideas as are available on the open market, essentially that very project, above outlined, proved so expensive in time (years) and money (hundreds of millions of dollars)¹² as to bankrupt one big jet-engine-experienced company, Rolls Royce, and contribute to Lockheed’s having to ask the U.S. government to bail it out.

The choice of details of dimension of a thousand parts, temperatures of operation, choice of metallurgy, speed of rotation and centrifugal force on blades, pressure on gas and air to burn how fast—the distillation of a million “obvious” details into a compatible package of engine and related manufacturing know-how that progressed the useful arts, has to be paid for by somebody or society will not enjoy the progress this new, bigger, better engine affords.

From the advancement of the art point of view and from the economic point of view, no one could care less whether the requisite protection is by private self-help (e.g. secrecy) or by government grant (e.g. patent) so long as the protection is feasible to the inherent facts of public enjoyment of the fruits of the technology and is effective enough to permit recovery of the investment and a profit thereon.

¹¹ This author’s college thesis in 1943 was on such turbines; hence this choice for his example.

¹² United Aircraft’s *Daily Newsletter Supplement*, July 18, 1973 reports the development cost of Pratt and Whitney’s JT9D for Boeing 747s and DC-10s as “half a billion dollars.”

Assume a not-unlikely fact, that Pratt and Whitney had already done most of the half billion dollars' worth ^{12.1} of work to produce an engine at least 90% as good as the new Rolls Royce engine and has been using it for a year in making engines for, perchance, Boeing 747's. Would society be served by permitting Rolls Royce to hire a dozen Pratt and Whitney select top engineers and use all their know-how?

With much of the development cost and time saved, Rolls would have been saved from bankruptcy and would be able to sell its engines earlier and perhaps 20% cheaper which clearly would serve the public with cheaper air travel—and which would likely bankrupt Pratt and Whitney because then it would either (a) lose its sales to Rolls Royce and fail to recover its tremendous development costs, or (b) cut its price to get business, by roughly the amount of the development cost that its competitor did not pay for, and thereby fail to recover its development costs.

—Which must mean that next time the money won't be available to commit to the development.

—Which must mean stagnation of the advance in the art.

Examples of society's need for patent protection are skipped here, for they are not the point of this paper; but by this example, of which many abound, it is seen that patents are often inconsequential to industry's need for technology protection in situations wherein protection of unpatented know-how may be vital.

Overall, the R & D dollar, on which the nation is critically dependent for the advances necessary to maintenance of its standard of living in a growing society with diminishing resources, cannot be supported by either trade secret or patent protection alone.

The trade secret protection is limited by such factors as: The trade secret is limited to the few people involved in the discloser-disclosee relationship;

Billions of people domestic and foreign, college professors and university doctorate candidates, dozens, hundreds or thousands of businesses, are free to develop and use and/or publish the same thing and improvements thereon;

^{12.1} Id.

There is a high dependability of timely competitive development of any secrets which are commercially important enough to justify the effort;

Trade secret subject matter is limited primarily to things not disclosed by the marketed product but rather practiced in-house;

Know-how licenses on the really big developments are commonly available;

—These and other factors limit trade secret protection at its worst to an inherently minor restraint on trade, nowhere near a monopoly. —Most commonly as minor as a pitcher of water is to the swimming pool.

The minor restraint, if any, is to be balanced against public policies favoring the right of personal property (which trade secrets assuredly are), the right of privacy (should proprietors be forced to cough up their secrets to competitors after one year?), the social need for business ethics and business's capacity to *entrust* a confidence to a business associate, and the need for business men to be able to enter into license contracts, R & D contracts and subcontracts for manufacture with proprietary know-how.

The patent law, as to important conceptual innovations is a needed statutory extension (both as to what otherwise would be secrets and also as to nonsecret inventions of patentable stature) of the common law trade secret right to protect secrets; this needed extension of trade secret protection is not a derogation of it.

Trade secret and patent law are like two horses hitched to the same public-interest-carriage—competition in innovation, competition in R & D, competition in bringing to public enjoyment things which are not yet there. And no pursuit of competition in the static group of things already here can properly be set above the carriage of public interest in innovative new technology.

Trade secret and patent protection are both as necessary and as compatible as the two wheels of a bicycle, without which vitally needed technology cannot ride.

Nevertheless, arising out of different socio-legal philosophy they also are as different as a car and jet airplane which, while both providing transportation, are in no meaningful way equiva-

lent, not in scope, not in persons affected, not in effective term, not in power of competitive restraint. And neither of them are anything near "monopoly."

V. Public Policy Favors Honesty and Loyalty

Except for citation of two prior decisions which sustained breach of confidence causes, the *Kewanee* opinion gives no reference to the concept of trust, honesty or loyalty of employees to their employer, no mention of ethical wrong involved in a business reaping where it did not sow.

What ever happened to the morality of our forebears? Is there no social merit to such expressions as "A man's word is his bond?" Has society no use for the concept of "trust," by which one man may entrust a confidence to another—and depend upon it.

What moral justification exists for A taking the value that B paid to create? What equity?

The *Kewanee* opinion encourages and sponsors the taking by indirection (by employment of the memory of another's employee) of the same technology value that by the *Kewanee* court, the Sixth Circuit, is still labeled the crime called "theft," if taken by the direction of the employee's taking documents with the same secret processes written thereon.^{12,2} Theft by any other name remains the same moral wrong. The possible existence of a federal criminal remedy under 18 U.S.C. § 2314 for secrets sold in interstate commerce is no substitute for a civil remedy for the party wronged.

Surely there must be a social policy favoring loyalty among friends, associates and employees, favoring an esprit de corps and morale by which employees serve their employer with their heart as well as their hours. For business efficiency and hence capacity is importantly related to the loyalty and employee esprit de corps. If all the heart is taken from business relationships by law which sponsors disloyalty, the business community will assuredly cease to be able to serve society well.

^{12,2} U.S. v. Greenwald, 479 F.2d 320 (6th Cir. June 1, 1973), cert. denied — U.S. — (1973), petition for writ filed June 28, 1973, held an attempt by a former employee to sell trade secrets, violated the federal criminal law 18 U.S.C. § 2314 proscribing transportation of "goods, wares and merchandise" in interstate commerce knowing them to have been "stolen, converted or taken by fraud."

All will recall the memory expert spy of the World War II movies who got jobs in U.S. plants, memorized data and disclosed it to the enemy. The *Kewanee* rule sponsors that spy-by-memory practice, as between domestic competitors and also by a foreign competitor seeking U.S. technology.

It is morally repugnant for spying to be sponsored by law.

When so many are free to compete, is freeing the competition of those very few who are disclosees sufficiently important to justify debilitation of honor, integrity, loyalty, and the property-like concept that he who foots the bill for producing technology should own the product to the extent of freedom against tortious breach of trust?

VI. Treaty Law Compels Good Faith Business Activity

The Paris Convention and the Pan American Convention,¹³ both treaties to which this nation is a party, proscribe acts "contrary to honest practices in industrial and commercial matters" and acts "contrary to commercial good faith or to the . . . honorable development of industrial or business activities."

The Supreme Court in *Bacardi v. Domenech* wrote:

"This treaty [Pan American Convention of 1929] on ratification became a part of our law. No special legislation in the United States was necessary to make it effective."¹⁴

The Paris Convention has been repetitively held in the 9th Circuit¹⁵ to be implemented in the Lanham Trademark Act of

¹³ Paris Convention, Act of Lisbon 1958, Art. 10 Bis (2) recites "Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." [which is prohibited]. Pan American Convention of 1929, Art. 20, reads to the effect, "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and therefore unjust and prohibited."

¹⁴ *Bacardi Corp. v. Domenech*, 311 U.S. 150, 161, 61 S. Ct. 219 (1940).

¹⁵ *Stauffer et al v. Exley*, 184 F.2d 962 (9th Cir. 1950); *Pagliero v. Wallace China Co.*, 198 F.2d 339 (9th Cir. 1952); *Neal v. Thomas Organ Co.*, 325 F.2d 978 (9th Cir. 1963) cert. den. 379 U.S. 828; *Audio Fidelity Inc. v. High Fidelity Recordings, Inc.*, 283 F.2d 551 (9th Cir. 1960); *Magna Pictures Corp. v. Paramount Pictures Corp.*, 265 F. Supp. 144 (C.D. Cal. 1967); *Ross-Whitney Corp. v. Smith Kline & French Laboratories*, 207 F.2d 190 (9th Cir. 1953).

1946, 15 U.S.C. § 1051 et seq. particularly Section 44(h) of the Act, 15 U.S.C. § 1126h. Other circuits take a contrary view.¹⁶

But *Bacardi* has not been overruled on the point that the Pan American Convention is self-implementing. Hence, either way you figure the point of whether the Lanham Act implements the Paris Convention, there would appear to be treaty law of the land, a federal law not preempted by patent law, which condemns breaches of confidence as surely as the state law of trade secrets.

And the treaties, both ratified by the Senate, reflect a Congressional attitude inconsistent with judicial disregard of "good faith dealings" in business and industry.

VII. Legislative History of the Patent Act

The *Kewanee* opinion does not reveal any interest in or attention to the legislative history of the drafting of past or present Patent Acts.

Since the *Kewanee* rule is in the nature of writing a new section X99 into Title 35, since it is the writing of a one-sentence statutory section that is clear and easy for the drafters of the Patent Act to have written if they so intended, it seems appropriate that we should review the legislative history of the Patent Act.

A. The Constitution on Patents

Patent law has been recognized at least since the 1474 patent statute by the city-state of Venice, which statute reads in part:

"And should it be provided that the works and contrivances invented by them [men of clever minds], others having seen them could not make them and take their honor, men of such kind would exert their minds, invent and make things which would be of no small utility and benefit to our state."¹⁷

That clause found its way, in paraphrase, into our own Constitutional Art. I, Sec. 8, Clause 8:

¹⁶ *L'Aiglon Apparel v. Lana Lubell*, 214 F.2d 649 (3d Cir. 1954); *Royal Lace Paper Works, Inc. v. Pest-Guard Products, Inc.*, 240 F.2d 814 (5th Cir. 1957); *American Auto v. Spiegel*, 205 F.2d 771 (2d Cir. 1953), cert. den. 346 U.S. 887; *Maternally Yours v. Your Maternity Shop, Inc.*, 234 F.2d 538 (2d Cir. 1956); *Kaz Mfg. Co. v. Cheseborough-Ponds, Inc.*, 317 F.2d 679 (2d Cir. 1963).

¹⁷ Patent Study No. 15. 85th Congress. 2d Session (1958).

"The Congress shall have the power . . . To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

Power not given Congress was of course reserved to the states. Hence, *there is no void created* wherein powers not granted to Congress were nevertheless denied to the states. Preemption thereby can not be larger at its biggest, than Congress's authority.

The Congressional authority is concurrent with that of the states, not to the exclusion of the states.¹⁸

A key point overlooked in all the preemption opinions is that the Congressional authority is dominated by the conjunctive preposition "by," which ties the purpose to the means and the means to the purpose, inseparably.

The Constitutional grant is of power to set up one system (not necessarily the only system) but for *one purpose only*, to promote the useful arts. That purpose is tied to a single recited means.

The means designated as Congress' only way to implement the one purpose, was to secure rights to inventors. But the use of the means, securing rights to inventors, is empowered to Congress only for the one social purpose, promoting the useful arts, *and no other purpose*.

It is palpably false to suggest that Congress granted any prerogative to use that means, securing rights, for any other purpose, like business ethics and equity.

Use of that means for all other social purpose, like establishing business ethics and equity, was reserved to the states.

Recall that in England and in our colonies, circa 1788 when our Constitution was being phrased, importers of inventions from other countries, who were not inventors, were commonly awarded patents. Soon thereafter states of the United States granted patents to noninventors, clearly for the purpose of promoting the useful arts.

For example, New York granted a series of steamboat patents, first to Fitch whose patent was later canceled, then to Livingston, later to Livingston and Fulton, the latter of which was the sub-

¹⁸ Cf. *Goldstein v. California*, — U.S. —, 93 S.Ct. 2303, 178 USPQ 129 (1973), holding the copyright portions of the same balanced sentence in the Constitution which authorizes patents, is a grant of concurrent not exclusive rights, to Congress.

ject of *Gibbons v. Ogden*.¹⁹ Clearly Livingston neither conceived nor reduced the steamboat to practice; he was merely Fulton's financial investor and an influential benefactor; he was not an "inventor." But the New York patent to this noninventor, among others, was conditioned that within twelve months there be "built a boat of at least twenty tons capacity which should be propelled by steam, and the mean of whose progress through the water with and against the ordinary current of the Hudson's river, taken together, should not be less than four miles an hour."

Clearly the Constitutional clause did not give Congress the power to grant such patents to noninventors.

The patent clause of the Constitution did not give Congress the power to grant cash awards to distinguished inventors to induce progress.

The patent clause did not give Congress the power to do its own R & D to promote progress—not the patent clause.

Promotion of the useful arts by means other than securing rights to inventors, was power not given to Congress; rather it was expressly reserved to the states.

So states have the power to promote the useful arts, for example, (a) by awards to inventors; (b) by state R & D efforts through state-supported universities; (c) by *granting exclusive rights for limited times to noninventors*, whether or not the subject matter is *patentable* or has been in use for more than one year.

All of this, including the state right to protect "unpatented articles" was argued to the Supreme Court in *Gibbons v. Ogden*.²⁰ Daniel Webster, and more completely the Attorney General, argued that the steamboat patent granted by the State of New York to Fulton and Livingston and acquired by Ogden, (i) was a nullity by virtue of federal patent law preemption and, (ii) could not be enforced against New York-New Jersey steamboat traffic because it was in interstate commerce, duly licensed pursuant to the commerce clause. Mr. Oakley in arguing in response to both patent law preemption and commerce clause preemption delivered the most complete argument against federal patent law preemption that has ever to this day been assembled anywhere. The report of the case summarizes Oakley's

¹⁹ 22 U.S. 1 (1824).

²⁰ 22 U.S. at 142 (1824).

nonpreemption argument for over 40 of the original opinion pages.

The court could decide the case for Ogden on either of Webster's two grounds, or both. One of the great judicial activists of all time, John Marshall, finding that the state patent could not be enforced against expressly licensed interstate commerce declined to find on patent law preemption and left the state patent alive to be litigated again at a later date as against intrastate commerce.²¹

B. The Patent Statutes, Generally

Various patent statutes were enacted under the constitutional clause.

All spoke in terms that an inventor has the option (e.g. "may") of applying for a patent—noninventors need not apply.

All spoke in terms that patentees would have X years (now 17 years) of protection.

A disclosure of the invention of at least some sort is inherently required in order to identify the thing patented; but the public service aspects of the patent disclosure seems to have found expression only in modern literature—it seems not to have been on anybody's mind at least until after 1850.

The patent statutes were property-philosophy statutes, "securing" in inventor's their somehow inherently natural "property" right in their invention, the honor to the natural "property" right being also the carrot by which to induce both the sweat of inventors and the capital of their financial backers into R & D and also into market development.

The earliest treatise authority on patent law spoke of their relation to trade secrets, thus:

"As the right of an inventor to his secret invention and to a remedy for the wrongs by which his property therein is injured, are not dependent upon the provisions of the Patent Law, they exist equally whether the invention is or is not in its nature patentable. . . .

"If the creator of these unpatentable inventions chooses to preserve his secret he has a right to do so, as also to communicate it confidentially under such restrictions as he deems ex-

²¹ The North River Steam Boat Company v. John R. Livingston (son of Fulton's friend Robert Livingston), 3 Cowen 713 (N.Y. 1825).

pedient. . ." Robinson on Patents, Vol. III, Sec. § 873 (1890). Emphasis added.

The Constitutional grant is of one power to Congress to set up a system to promote the arts solely by the means of securing to "inventors" rights in their "discoveries," there being no Constitutional expression evidencing cognizance of a standard of novelty or patentability. Neither the word "novelty" nor "standard of patentability" or its equivalent, is found in the Constitution. Clearly at the time of Constitutional drafting, every producer of a new gadget was within the connotations of "inventors." But the Supreme Court now writes that "The patent standard is basically constitutional" and construes that standard to be a high, difficult-to-obtain one.²²

Since the Constitution reserved to the states *all authority not granted to Congress*, the protection of lower-standard inventions that fail to meet the Constitutional standard of protection for "inventors", cannot be preempted.

The antiprotectionist theme cannot either in logic or law have it both ways, that the Constitution limits patents to the very few dramatic technical breakthroughs while a statute pursuant to the Constitution preempts state action on all technology of lesser stature.

If the patent statute preempts, as alleged, all right to preclude the use of information, it preempts the state police power as well. It preempts the city's right to prevent manufacture of fireworks in the proximity of schools, for the few who would be involved in the manufacture are by the patent-law-preemption theory guaranteed that they cannot be precluded from using the public domain technology on fireworks manufacture by any other than the patent law.

Perhaps more pointed: If the patent law preempts all other social policy on rights to exclude, and thereby guarantees the right to use subject matter not covered by valid patent, it guarantees the right to sell toxic drugs covered by expired patents, irrespective of state drug regulations for its public's safety.

²² Anderson's Black Rock v. Pavement Salvage Co., 396 U.S. 57, 90 S. Ct. 305, 308 (1969).

The consideration of this ridiculous extreme forces the conclusion that preemption as a theory, forceably reaches too far, hence must fail.

There is no conflict between a statutory extension of common law protection and the common law protection, no conflict between securing a right to preclude others for the social purpose of the patent system, and leaving untouched the common law right to preclude others for either the same social purpose (promoting the arts) or a different social purpose (preservation of private good faith in business dealings), both of which seem to be inherent roles of the trade secret law.

It would seem that if any one of the drafters of our many patent acts since the first one in 1790, had wanted to terminate trade secret rights after one year's commercial use, he might easily have so recited in the same paragraph where he cut off the right to file for a patent after one year's commercial use. But this, of course, was not done by the statute drafters. Contrast the copyright statute, 17 U.S.C. § 2, where the statutory drafter wrote on and considered the scope of the preempted and non-preempted territory—a clause for which the patent statute has no parallel.

The present patent law is the Patent Act of 1952, Title 35 U.S.C., the legislative history of which is peculiarly well recorded. And since that particular writing is the thing now alleged to preempt, the legislative history of that writing is of peculiar interest.

But before that history can have its full meaning, it is necessary to understand the stage of the law as of the time of drafting of the 1952 Code.

C. State Trade Secret Law Development

State courts failed to find either evil or conflict with the patent law, in the act of A contracting with B, "I'll tell you what I know, if you'll pay X dollars and keep the secret," so they enforced such contracts. They evolved a body of case law in most states. The state case law has always been essentially uniform in its view that obligations of confidence are enforceable in court—this even though the legal theories seemed not always the same.

Courts spoke sometimes in terms of property or quasi-property, sometimes not so much of property as of the tort of breach of confidence, sometimes of contracts and quasi-contracts.

But the gravamen of the cause remained always the enforcement of private good faith.

The Restatement of Torts in 1939 developed its expression, § 757, protective of trade secrets and confidential information. In Comment (a) to § 757 the Restatement of Torts discusses the rationale of patent and trade secret protection, as concurrent systems of protection without conflict between them.

The Restatement of Restitution (1937) provides in its § 136 for restitution of the value derived by use of another's trade secret.

The Restatement of Agency, 2nd (1958), tracking on this point the pre-1952 first Restatement of Agency, proscribes use of confidential information belonging to another, in its Sections 395 and 396.

The Restatement of Trusts, 2nd (1959), provides in § 82(e), simply: "A trade secret can be held in trust."

So stood the uniform state common law of trade secrets as of the drafting of the 1952 Patent Act.

There came a time after *Sears and Compco*²³ when trade secret pirates were operating with such vigor that twenty-one states enacted criminal laws making it a crime wrongfully to appropriate a trade secret.²⁴

The parallel to the sudden bloom of phonograph record and tape piracy after *Sears and Compco* which brought about state and federal legislative acts directed to that specific piracy, cannot escape notice. See *Goldstein v. California*, — U.S. —, 178 USPQ 129 (1973).

²³ *Sears, Roebuck & Co. v. Stiffel Company*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

²⁴ Ark. Stat. Ann. §§ 41-3949 to 3951 (1967); Cal. Penal Code § 499c (West 1970); Colo. Rev. Stat. § 40-5-33 (Supp. 1969) § 40-5-34 (Supp. 1967); Ga. Crim. Code § 26-1809 (1968); Ill. Rev. Stat. Ch. 38 § 15-1 to -9, § 16-1 (1965); Ind. Code §§ 35-17-3-1 to 35-17-3-5 (1969); Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967); Mass. Ann. Laws Ch. 266 §§ 30(4), 60A (1967); Mich. Compl. Laws §§ 752.771 to .773 (1968); Minn. Stat. Ann. § 609.52 (1967); Neb. Rev. Stat. Ch. 28, §§ 548.01 to .03 (1965); N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967); N.J. Stat. Ann. §§ 2A: 119-5.1 to -5.5 (1965); N.M. Stat. Ann. § 40 A-16-23 (1967); N.Y. Penal Code § 155.00(6), 155.30 (3), 165.07 (McKinney 1967); N.C. Gen. Stat. § 14-75.1 (1967); Ohio Rev. Code Ann. Tit. 13, § 1333.51, 1333.99 (1967); Okla. Stat. Tit. 21, § 1732 (1968); Pa. Stat. Tit. 18, § 4899.2 (1965); Tenn. Code Ann. §§ 21-4328 to 4240 (1967); Wis. Stat. Ann. § 943.205 (1965).

D. Congressional Law on Trade Secrets

Congress itself has specifically sanctioned payment of consideration for acquisition of "secret processes, technical data, . . . and other property or rights by purchase, license, lease. . . ." This statute is without regard to whether the secret processes have been in use for more than one year. 42 U.S.C. § 1857b-1 (b)(4); 16 U.S.C. § 778e(e); 30 U.S.C. § 322(b).

Congress also enacted Internal Revenue Code, 26 U.S.C. §§ 861(a)(4) and 872(a)(4) dealing with taxation of royalties for the licensed use of secret processes and formulas—relying upon the then law of trade secrets that did not terminate the license after one year.

Congress has passed a multitude of other enactments, in reliance upon the established trade secret law and without purporting to change it.²⁵

E. Supreme Court Law on Trade Secrets

The first presentation to the United States Supreme Court of federal patent law preemption of state powers over progress of

²⁵ See for example, the Freedom of Information Act, 5 U.S.C. § 552(b)(4) prohibiting federal agency disclosure of trade secrets; 18 U.S.C. § 1905 making it a federal crime for a United States officer or employee to disclose a trade secret; Section 24 of the Securities Exchange Act of 1934, 15 U.S.C. § 78x, preventing the SEC from requiring that trade secrets or processes be revealed; Section 6(f) of the FTC Act, 15 U.S.C. § 46(f), preventing the FTC from making trade secrets public; 15 U.S.C. § 1193(e) requiring trade secrets received by the Commerce Department in reference to fabric flammability regulations to be considered confidential; 15 U.S.C. § 1263(h) prohibiting any person from using or disclosing trade secrets acquired in connection with HEW inspection and investigation of hazardous substances; 15 U.S.C. § 1401(e) requiring trade secrets received in Transportation Department inspection and investigation of federal vehicle safety standards to be considered confidential; 21 U.S.C. § 331(j) prohibiting any person from using or disclosing information concerning methods or processes acquired under Food, Drug & Cosmetic Act which are trade secret; 21 U.S.C. § 458(a)(5) prohibiting use or disclosure of trade secrets acquired under Poultry Products Inspection Act; 33 U.S.C. § 1160(f)(2) providing that no person shall be required to divulge trade secrets at public hearings under the Federal Water Pollution Control Act; 42 U.S.C. § 263i(3) prohibiting disclosure by HEW of trade secrets obtained in enforcing Radiation Control for Health and Safety Act of 1968; 42 U.S.C. § 1857d(c)(5) providing that no witness shall be required to divulge trade secrets in any hearings under Clean Air Act; 42 U.S.C. § 1857f-6e(c) requiring trade secrets obtained by HEW in connection with registration of vehicle fuel additives to be considered confidential; and 35 U.S.C. § 122 providing for the preservation of applications for patent in secrecy until the patent issues, i.e., until the applicant knows what patent protection he is going to get and thereafter authorizes issuance of the patent.

the useful arts and/or over inventions, was in *Gibbons v. Ogden*, 22 U.S. 1 (1824) where the New York state patent on the steamboat was before the Court. See page 32 supra.

At least as early as 1889 the United States Supreme Court was upholding contracts involving the conveyance of confidential information. *Fowle v. Park*, 131 U.S. 88 (1889).

In *Board of Trade v. Christie Grain & Stock Co.*, 198 U.S. 236, 250-51 (1905), Mr. Justice Holmes said:

"In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It *stands like a trade secret*. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's [citation]. *The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself*, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust and using knowledge obtained by such a breach." (Emphasis added).

The Supreme Court in 1911 stated:

"A secret process may be the subject of confidential communication and of sale or license to use. . . ." Dictum in *Dr. Miles Medical Co. v. Park & Sons Co.*, 220 U.S. 373, 402 (1911).

The Supreme Court again sustained trade secret protection in *DuPont Powder Co. v. Masland*, 244 U.S. 100 (1917).

In 1929, the Supreme Court held:

"It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relationships, *both matters independent of the patent law*, and that the subject matter of Oppenheimer's claim *was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust*. [citations] *Oppenheimer's [trade secret] right was independent of . . . the patent law, . . .*" *Becher v. Contoure Laboratories, Inc., et al*, 279 U.S. 388, 391, 49 S. Ct. 356, 357 (Emphasis added).

Then in 1933 we find the Supreme Court again agreeing in *U.S. v. Dubilier*, 289 U.S. 178, 53 S. Ct. 554 at 557 (1933), that:

"He [the inventor] may keep his invention secret and reap its fruits indefinitely."

Such is the inventor's option, if he so elects. The Court went on to point out an alternative option:

"In consideration of its [the invention's] disclosure, and the consequent benefit to the community, the patent is granted."

In the famous and oft-followed *INS v. AP* case, 248 U.S. 215 (1918), the Supreme Court in an unfair competition case where copyright law preemption was strongly urged upon the Court, applied a nonpreemption rule. There the Supreme Court held that the commercial use for profit of even published information was in the circumstance there present a "misappropriation" of "quasi-property" that was not sanctioned by the copyright [or patent] laws.

All that law was Supreme Court law prior to *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938), when there was a federal common law. When *Erie* terminated that law, those opinions nevertheless were followed in the state courts.

Never in any case where trade secret law and industry practice was briefed to the Court, has the Supreme Court intimated any retreat from the law so announced.

The *Kewanee* opinion cites *Grant et al v. Raymond*, 31 U.S. (6 Pet.) 218 (1832) as though it infers something inconsistent with the above; but not so. The issue in *Grant* was the validity of the reissued patent when the patent owner had first obtained a patent containing a defective disclosure, had surrendered that patent and obtained another with a corrected specification. In approving the reissue patent procedure, the Court seems to have written in context of an assumed right of the inventor not to seek a patent at all.

The *Kewanee* opinion also quotes from *Kendall v. Winsor*, 62 U.S. 322 (1859), dictum expressions suggested to connote forfeiture of trade secret rights if a patent were not promptly sought. But suit there was on a patent, not on trade secret rights. The issue there was not loss of trade secret rights, but loss of the right to seek a patent by commercial exploitation of the invention for a long time before filing for the patent—and the court sustained the patent over the there-occurring delay. There being no trade secret issue before the court, no evidence of R & D economics before the court, and so far as appears no briefs directed to the breach of confidence theme, the case is hardly a proper authority for any factual findings about impeding prog-

ress through one inventor's keeping of his own secret, all others being free and unrestrained.

Supreme Court law, in *trade secret cases*, has *always* supported trade secret law as not preempted by patent law.

F. Federal Courts of Appeal on Trade Secrets

The Courts of Appeal, following the lead of the Supreme Court and of state courts since *Erie v. Tompkins*, have sustained trade secrets in numerous cases ranging over the circuits. The *Kewanee* opinion acknowledged four such opinions from four different circuits since *Sears* and *Compco* which conflict with *Kewanee*.²⁶

G. The 1952 Patent Act

In 1950-1952, the gestation period of the Patent Act of 1952, present Title 35 U.S. Code, the nonpreemption of trade secret law stood second to no other rule of law in the firmness of its then establishment as a rule of law of our entire nation, second to no other in the sheer mass of contracts and commercial practice built on a rule of law.

That Act was written perhaps by four, but primarily by two men. The Honorable Giles Rich, now judge on the Court of Customs and Patent Appeals but then one of the National Council of Patent Law Association's two-man drafting committee for the patent law revision effort; and the Honorable Pasquale J. Federico, Examiner-in-Chief of the United States Patent Office and also chief technical advisor to both the House and Senate subcommittees having jurisdiction over the patent law codification. Mr. Federico personally wrote the entirety of the first draft of what became the Patent Act of 1952, and was a participant in both the bar studies and the Congress's studies in all the revisions that matured into that Act.

As a result of his deep involvement in all phases of the drafting and revision of drafts of what is now Title 35, Mr. Federico wrote a comprehensive "Commentary on the New Patent Act" which was published by West Publishing Company as a foreword to its

²⁶ *Servo Corp. of America v. General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), cert. denied 383 U.S. 934 (1966), rehearing denied 384 U.S. 914 (1966); *Dekar Industries, Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970) cert. denied 402 U.S. 904 (1971); *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971).

original publication of the new Title 35, United States Code Annotated.

As a result of deep involvement in all phases of the revisions after Mr. Federico's first draft, and his personal drafting of several sections of what became the new law, Judge Rich was asked to speak at the First Annual Institute on Patent Law, of the Southwestern Legal Foundation, Dallas, Texas, March 21-22, 1963, on "Congressional Intent—Or, Who Wrote the Patent Act of 1952?" His paper has been reproduced in "Seminars for Newly Appointed United States District Judges Conducted by The Federal Judicial Center," 1970 and 1971.

From both writings it is clear that the central theme of the 1952 Patent Act, was codification with only relatively "noncontroversial" changes. Nothing recorded anywhere that this author has been able to find, suggests any cognizance by any of the drafters of the Act, or by any of the members of the committees of Congress, or by any of the members of Congress, that they were in fact changing thoroughly established trade secret law upon which billions of dollars of business practice was built—an assuredly controversial change.

Later, in his capacity as a judge, Judge Rich wrote again what he, an author of the Patent Act believed:

"Patent laws function only to keep things out of the public domain temporarily. They have nothing to do with putting things into it. They say nothing about right to copy or right to use, they speak only in terms of right to exclude." Opinion by the Honorable Giles Rich in *Mine Safety Appliances Co. v. Electric Storage Battery Co.*, 405 F.2d 901, 902 n. 2 (CCPA 1969).

Present Title 35, Section 101 reads in part:

"Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, *may* obtain a *patent* therefor." (Emphasis added)

There is no language of taking from the inventor any rights if he fails to apply for a patent. If intended, it would have been easy to write *Kewanee's* Section X99, cutting off trade secret rights after one year into perhaps the same patent statute paragraph as the one cutting off patent rights after one year of commercial use.

Recall that the Constitutional authority is limited to inventors. Congress has no constitutional authority as to noninventors, who collect trade secrets from, shall we say, spies in industrial plants in foreign countries. Are spies in foreign plants who are outside Congress's patent law authority, to be held not preempted while U.S. inventors are preempted, the statute saying nothing about taking rights from either of them?

Did either the statute drafters or the Sixth Circuit consider such anomalies when writing their respective law?

It is clear beyond peradventure of doubt, that the consciousness of none of the legislative participants involved in the Patent Act now held to preempt with its provisions about one year grace period to file, had any cognizance of the thing *Kewanee* says they did.

No single brain was ever cognizant of what the Sixth Circuit now says was being done.

What a frightful system of government that permits any law concerning billion dollar commercial impact, to be made by "policies" alleged to be found in a statutory non-expression, without any single brain being cognizant of the alleged "policies" when drafting or enacting the statutory non-expression.

VIII. "Legislative" History of Preemption

It follows from the foregoing that the *Kewanee* rule is its own legislation. And like all legislation it has its own "legislative history," a history that is found in a series of *nontrade* secret cases.

Accepting the *Gibbons v. Ogden* refusal to adopt patent law preemption in context of a recitation of 40 pages of argument on it, as a denial, it becomes fair to say that to this author's knowledge the original conception between patent law and something it might preempt was in *Singer v. June*.²⁷ Using headnote paraphrases, the court there held: Where during the life of a monopoly created by a patent, the trade name has become the identifying and generic name of the patented invention, this name passes to the public with the cessation of the monopoly created by the patent.

The 1896 mating of patents and trademarks in *Singer* was an

²⁷ *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169 (1896).

unfortunate error that for decades produced no offspring. Preemption did not timely follow from this mating.

The nonpreemption by the statutory copyright law of both the common law copyright and the law of unfair competition as applied to writings, seemed established in *INS v. AP*; ²⁸ and the nonpreemption by the statutory patent law of the unfair competition law as applied to trade secret law seemed established by such as *Becher* and *Dubilier*,²⁹ all Supreme Court cases.

But after a forty year gestation period, *Singer* begot *Kellogg* ³⁰ which cited *Singer*, and by divided court held as paraphrased in West's headnote 3:

"Where 'Shredded Wheat' was the general designation of patented product during life of patents covering product and process of making it, the right to make the product as it was made during the patent period, and also the right to apply to it the name by which it had become known, passed to the public on expiration of the basic patent."

The court repetitively spoke in terms of "dedication" by expiration of the patents. But no patent law language speaks either in terms of "dedication" or of trademarks, much less in terms of trademarks being dedicated. And there are tremendous practical and legal differences between (a) termination of a patent right to exclude copying and use, and (b) grant to all members of the public by "dedication", of an affirmative right to copy and use a trademark. Apples and bananas!

While the judgment-for-defendant result was correct under the trademark law, the admixture of expired patent rights to quell trademark rights reads like Alice in Wonderland and has begot much mischief by those who speak the same erroneous expression in other fact situations as the unthinking parrot repeats what it heard.

We need to review again the relationship between several examples of rights to preclude, the better to understand that "expiration" of a right to preclude is not "dedication" of a right to copy and use.

Frequently, two patents cover the same product; one patent

²⁸ *International News Service v. Associated Press*, 248 U.S. 215 (1918).

²⁹ *Becher v. Contoure Laboratories, Inc.*, 279 U.S. 388, 49 S. Ct. 356 (1929) and *U.S. v. Dubilier Condenser Corp.*, 289 U.S. 178, 53 S. Ct. 554 (1933), discussed at p. 32 hereof.

³⁰ *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 59 S. Ct. 109 (1938).

right to preclude others "dominates" another patent which may relate to a subcombination or an improvement. Expiration of the dominated patent terminates *that* patentee's right to preclude; but it is uniformly held that this expiration does not grant anybody the right to use the invention of the expired patent when so to do would infringe the dominating patent. I.E., the expiration does not put anything into the public domain; it merely terminates a right to keep something out of it.

Consider a second example. Suppose the patent is on a food or drug and expires. Clearly that expiration of the patent right to preclude does not put the food or drug forcibly into the public domain by dedicating to all the right to manufacture and sell—not if food and drug law prohibits its manufacture or sale. There is no "conflict" between expiration of the patent right to preclude, and a continuation of the food and drug regulation policies which may preclude.

Suppose next that a design patent (fourteen years) is available on an artistic design of a lamp base, and a copyright (28 years) issues on the sculpture which is that same design. In *Mazer v. Stein*³¹ the Court discussed at some length the different scope of copyright protection (only against copying) and patent protection (against use of the same concept whether copied or independently developed) and specifically held that the availability of patent protection did not preempt copyright protection.

In ruling that appropriateness for patent rendered trade secret preempted by the patent protection, the *Kewanee* opinion shows no cognizance of the modern and closely parallel ruling by the Supreme Court in *Mazer*, that appropriateness for patent does not preempt copyright protection. On social policy (as distinguished from federal structure of government) the two concepts seem indistinguishable; on social policy grounds, *Mazer* should control *Kewanee*.

Returning now to the example involved in *Singer* and *Kellogg*: A trademark is a word or design the significant meaning of which

³¹ 347 U.S. 201, 74 S. Ct. 460 (1954).

is *brand*. A trademark indicates a single source of a product, a single brand of that product.

The trademark right is the right of the owner of the mark to preclude the type of competitive use of the word or design (i.e. the trademark) which would cause the public to be confused as to the source of the product, whereby the purchaser in seeking one known quality would be deceived into getting another. The trademark owner's right is derived vicariously from the public right to not be confused. It has no concern for the patent law's concerns, inventorship, progress of the arts, inherent property in one's own creation, monopolies on products. (The same product can be sold under different trademarks and normally is.)

But if a trademark word becomes generic, i.e., if the public through the proprietor's misuse of the mark comes to use the word no longer to suggest customer's preferred manufacturer or brand but rather to describe the type of product he wants, then the public is no longer confused-as-to-source by competitive use of the word; it ceases to function as a mark. If "escalator" means "moving stairway," *any* moving stairway and not just Otis's *brand* of moving stairway, it no longer is a de facto mark and its former owner loses all legal rights in it.

But the loss of the trademark right is independent of the patent right, both in social purpose and in point of time. The right in a trademark (e.g., Ford) may last 70 years without monopolizing the product, or the right may terminate upon the word going generic (escalator, cellophane, aspirin) perchance in five years—and the patent law could not care less.

In both *Singer* and *Kellogg* the several significant patents in each case expired at different times; no one of their expirations effected the loss of the trademark rights. In reality it was the public's lack of familiarity with any other descriptive or generic word but the former mark, now used descriptively by the public, that terminated the trademark right. The patents were handy and got blamed for the loss of the trademark rights by association.

It is significant to note that in both *Singer* and *Kellogg*, not only was the reference to patents error, it was dictum; for the judgment was properly founded upon the mark going generic and it was not necessary to reach patent law dedication. Dictum error building on dictum error.

Soon after *Kellogg* came the "assignor-estoppel" case, *Scott*

Paper.³² A philosophy against restraints on trade seems in 1945 to have dominated the thinking of some members of the Court which speaks now not infrequently in absolute terms of monopoly when only the mildest restraints were involved.

The issue in *Scott Paper* was whether the assignor of a patent who got valuable consideration for his assignment, when charged with infringement, should be permitted to construe the scope of the assigned patent down to zero valid scope (in effect, invalid) under the guise of arguing noninfringement. Could he totally nullify the patent he sold or should this one party, the assignor, be estopped by his own prior assignment-for-value from such action? The prior art relied upon by the assignor-infringer was a prior expired patent.

Only a few years before the Court had written in *Kellogg* about "dedication" upon expiration of a patent, citing *Singer*. So now, citing *Kellogg* and *Singer* the Court again got hold of this "dedication" word and used it to implement its no-restraint-of-trade philosophy. Said the majority of six justices: The expired patent dedicated its subject matter to the public, including the assignor-infringer of the patent in suit through which the public could enjoy the benefits of the dedication.

Said the six-justice majority of the Court:

"The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power."^{32.1}

It shocks and astonishes, to see our highest court so callous as to give the back of its hand with a cavalier wave, to private good faith. No wonder we now have Air Force Lieutenants falsifying records on Cambodia bombings; White House officials condoning break-ins for wire taps; etc. Who, if not the Supreme Court, should be a leader in encouraging high regard and priority position for private good faith?

Over separate dissents by such as Mr. Justice Reed and Frankfurter, the Court found "dedication" in the patent law, to justify its refusal to permit one party among thousands of potential competitors to be estopped from disavowing his own contract, hence from use of the teaching of one expired patent. Antitrust

³² *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 66 S. Ct. 101 (1945).

^{32.1} *Id.* at 257.

is not the sole public policy, not the one true god before which all other public policy should bow down.

But the stage was fully set in *Scott Paper*, for *Sears* and *Compco*³³ where the design patents on ornamental designs had been held invalid, and the lower courts had granted judgment for plaintiff on ground that copying the designs was unfair competition.

It seems clear that if the courts in *Sears* and *Compco* had applied the proper unfair competition and product simulation law which is characterized in *Pagliero et al v. Wallace China Co.*, 198 F.2d 339 (9th Cir. 1952), the Court's judgment-for-defendant result which seems so necessary to reconciling the intellectual property laws into a single coherent fabric, would have obtained without the mischief of patent law preemption.

The starting point of what is fair and unfair common law of product simulation is a right to copy and use published works learned of without an obligation of confidence. To that right there are many exceptions of different social purpose, term and scope, e.g., the patent right, the copyright, the anti-palming-off unfair competition right, the food and drug regulation right, the trademark right, the anti-breach-of-confidence right, etc.; but none of the exceptions fit *Wallace's* situation.

Wallace's biggest argument was that it was the originator and market-developer of four china designs and that that originator-developer fact alone gave it rights, particularly since the designs had acquired trademark "secondary meaning," i.e., the public identified the designs with Wallace as the source. But the design was of interest to the purchaser for its design function and had been published by Wallace; and the trademark right (being not designed to monopolize or restrain trade in the *product* the public wanted, but only to assure lack of public confusion as to *source* of the product) could not be applied to the product feature which the public wanted to buy as product feature. The social purpose of trademark law did not reach that far.

So the common law of trademarks and unfair competition (under *Erie*, common law is state law), adopted into the Lanham Trademark Act § 44(h), 15 U.S.C.A. § 1126(h), the Paris Convention (53 Stat. 1748) and Pan American Convention (46

³³ *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

Stat. 2907), did not in the Ninth Circuit's view reach far enough to give *Wallace* the right it claimed. No patent law issue was involved.

In *Sears and Compco*, where the above *Wallace China* unfair competition law so perfectly fit to dictate the socially desired result, the Supreme Court got its hand on the wrong handle. The Supreme Court took the unrefined, indiscriminate, bull-in-china-closet approach, that since the patent law concerned itself in some manner with mechanical configurations (if and when they are new and nonobvious inventions by inventors), the patent law inherently preempts state unfair competition law power over the light fixture designs. Of course, citing *Kellogg* and *Singer*, among others.

By the measure of *Anderson's Black Rock*³⁴ the inventions in *Sears and Compco* failed to meet what *Anderson's* called a Constitutional standard of patentability, one which for this purpose we will assume exists. (Contrast pg 47 hereof).

In view of the reservation to the states of all powers not granted to the Congress, if the inventions were not patentable under the Constitution, no state law applicable thereto can have been preempted by the Constitution. For there is no hiatus, no void, in the powers: What power is Constitutionally *not* in Congress, is in the states.

Yet the court wrote in *Compco* this characterization of its holding in both *Sears* and *Compco*:

"Today we have held in *Sears* . . . that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article."^{34,1}

This total expression of preemption, irrespective of whether the inventions meet what the Court calls a Constitutional requirement for patentability, is patently wrong in view of the reservation of all nondelegated powers to the states.

This expression is one of preemption irrespective of breach of confidence (which was not before the court), irrespective of whether the article was made by an inventor or a noninventor (Congress is empowered only to secure rights to inventors and

³⁴ *Anderson's Black Rock v. Pavement Salvage Co.*, 396 U.S. 57, 90 S. Ct. 305, 308 (1969).

^{34,1} 376 U.S. at 237.

may not dabble in rewards to noninventors as *Stiffel* and *Day-Brite* were held not to be).

—Error built upon prior dictum error, and not at all necessary since the same result obtains under quite sound *Wallace China* unfair competition law.

Whether by coincidence or as a result of *Sears and Compco* and their arguable partial overrule of *INS*, *Becher* and *Dubilier*,³⁵ *Sears and Compco* were followed by a bloom of phono-record piracy which resulted in many state statutes rendering phono-record or tape piracy a crime and an amendment to the federal copyright act which rendered phono-record or tape piracy an act of copyright infringement—both directed to legal remedies for the same wrong which prior to *Sears and Compco* were illegal under *INS*.

Similarly, theft of trade secrets took such a turn that 21 states passed laws rendering theft of trade secrets a crime³⁶ and others construed their existing law to the same effect. The fact that *Sears-Compco* language spoke of preemption in near-total terms was in those acts disregarded because trade secrets were not before the court nor briefed to the court in *Sears* or *Compco*.

Then the licensee-estoppel case, *Lear, Inc. v. Adkins*³⁷: a suit seeking to collect royalties due under a contract of license of an invention and patent thereon; a defense that the subject patent is invalid, hence no royalties are due in spite of the license; the issue briefed to the Supreme Court being whether the licensee was estopped by virtue of being a licensee from contesting the validity.

In spite of an acknowledged 100 years of prior licensee-estoppel law, the Court (again pursuing its *Scott Paper* theme against even de minimis restraints on trade in the name of patent property) decided that the licensee *Lear* was no more estopped to contest patent validity than the *Marcalus* assignor to *Scott Paper*.^{37,1} Private good faith still seemed to the Court to be relatively unimportant by comparison with getting every last one

³⁵ *International News Service v. Associated Press*, 248 U.S. 215 (1918); *Becher v. Contoure Laboratories Inc.*, 279 U.S. 388 (1929); *U.S. v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933).

³⁶ See note 24, supra.

³⁷ 395 U.S. 653 (1969). See Arnold and Goldstein, "Life Under *Lear*," 48 Tex. L. Rev. 1235 (1970).

^{37,1} 395 U.S. at 673.

(of 210 million potential competitors) freed of estoppels against competition.

Mr. Justice Black (who had written *Sears and Compco*) wrote for himself, and Justices Douglas and Warren, a special opinion expressing this time, total patent law preemption of the right to contract for royalties on unpatentable inventions. Justice Black's fixation on "monopoly" concept is peculiar. Said he, as premise in support of his view, inter alia:

"No state has a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws."^{37.2}

And he goes on to include within that rule, "private arrangements under which self-styled 'inventors' do not keep their discoveries secret, but rather disclose them, in return for contractual payments," saying these "run counter to the plan of our patent laws."^{37.3}

But one or two people's contract to keep a secret is jolly well no "monopoly" when dozens, hundreds or perchance thousands of other businesses are free to develop and compete. And forcing them to pay for or develop new technology will better serve society through progress in the arts than sponsoring their non-development free-loading plagiarism.

The majority of the Court declined Mr. Justice Black's invitation, recognized that voiding of all contracts for disclosure of information was a "difficult" question, invited courts [why not legislative bodies?] to "fully focused inquiry" on the point, and remanded it. After all, the point had not been decided by the Court below, was not mentioned in the petition for writ of certiorari, was not really briefed to the court.

It is horrifying to contemplate a system of government which would permit such economically important new law to be made in a case where the public was not advised of the pending development and the parties' attention was totally focused on other issues which at the time were the fundamental issues at hand.

The Supreme Court has recently considered whether the copyright law really did preempt the state criminal laws passed fol-

^{37.2} Id. at 677 (Black, J. dissenting)

^{37.3} Id.

lowing *Sears* and *Compco* to stop the multimillion dollar losses of the legitimate phonograph record companies from tape and record pirates.

On June 18, 1973 the Supreme Court in *Goldstein v. California*,³⁸ by a five to four divided court, held that the copyright law did not preempt California record piracy law. But at best the opinion is surely a mixed bag for the trade secret proprietor and licensor.

At the outset recall a fundamental difference between the copyright and the patent statute. The patent statute has no reference to common law and equity rights. But Section 2 of the Copyright Act, Title 17 U.S.C. provides:

"Nothing in this title shall be construed to annul or limit the right of the author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication, or use of such unpublished work without his consent, and to obtain damages therefor."

The right at common law and equity, to be the first to publish, is part of Congress's statutory system with respect to authors. Until *Kewanee* the courts uniformly held equity and common law to be part of the system also, with respect to inventors.

The positive statement of § 2 that certain common law rights are preserved, seems to carry a negative implication that other common law rights, if any, are not preserved. But since the records and tapes in *Goldstein* had clearly been published, the role of 17 U.S.C. § 2, as applied to preemption, did not get into the *Goldstein* opinion.

The *Goldstein* opinion develops for some pages the issue of constitutional (as distinguished from statutory) preemption of state "power to grant to authors 'the exclusive Right to their respective Writings'." The conclusion: No constitutional preemption of state grant of exclusive right to authors in their writings, and this irrespective of the duration of the state's grant.^{38.1} That portion of the opinion would read equally well, word for word, to the conclusion that the Constitution does not preempt state patents or trade secret protection of unlimited term.

But what of the federal copyright statute? The Court digs deep

³⁸ — U.S. —, 93 S. Ct. 2303, 178 USPQ 129 (1973).

^{38.1} 178 USPQ at 139.

into legislative intent of the copyright statute, noting: The Congress pointedly waited on the Supreme Court's *White-Smith*³⁹ opinion which held piano rolls were not "copies" within the meaning of the then copyright act; Congress then determined that the copyright statutes should be amended to insure "that *composers* of original musical works received adequate protection to encourage further artistic and creative effort," and passed § 1(e) that records and piano rolls were to be considered as "copies" of the original composition and could not be manufactured unless payment was made

"to the proprietor of the *composition* copyright. The section of the House Report cited by petitioners was intended only to establish the limits of the *composer's* right; [no mention of performer's or record manufacturer's rights] . . . Nowhere does the report indicate . . . that Congress intended records as *renderings* of original artistic *performance* to be free from state control."^{40,1} (emphasis modified)

Said the court further,

"recordings qualified as 'writings' within the meaning of the Constitution, but had not previously [to the 1971 Act of Congress⁴⁰] been protected under the federal copyright statute [except that the composer was entitled by the 1909 Act's § 1(e) to his compensation]."^{40,1}

Hence, *Sears* and *Compco* do not apply because the federal copyright statute did not preempt state law protection of recordings fixed prior to the February 15, 1972 effective date of the 1971 Act (which subjected records to copyright protection).⁴⁰

It is important to note that briefs to the Court and the Court seemed to presume without analysis of the point, that the copyright statute insofar as it reaches subject matter (composer's rights), is something more than a statutory right to exclude which expires without affecting any right to exclude that exists by virtue of any other social purpose or law. The premise was that the copyright law is an affirmative statutory putting-of-something-into-the-public-domain into the teeth of any state

³⁹ *White-Smith Music Publishing Co. v. Apollo Co.*, 209 U.S. 1 (1908).

⁴⁰ ¹ *Goldstein*, 178 USPQ at 137.

⁴⁰ Pub. L. 92-140, 85 Stat. 391, 53. Query: Did the 1971 federal copyright coverage of recordings then preempt the California statute, so that as of the date of the Supreme Court's *Goldstein* decision of nonpreemption, the California state statute had by then been preempted? It seems: Yes!

^{40,1} *Goldstein*, 178 USPQ at 138.

law of any kind that relates to composer rights. While the pragmatics of tactical reality compelled the parties not to challenge this premise, I find it difficult to see why the Supreme Court did not acknowledge that such a distinction exists to be considered in its opinions.

The copyright law relationship to recordings seems to be all that was significantly briefed to the Court. Had the Court stopped with its ruling on that point, the nonapplication of *Sears* and *Compco* to innovations by importers and other noninventors and developers whose developments did not measure up to statutory standards of patentability, would seem clearly to be established by *Goldstein*. For patent statute drafters not only did not, they constitutionally can not, treat of works by other than "inventors."

If the extent of copyright law preemption can turn upon the difference between the writings of composers (preempted) and of the writings in a phono-record of a performer (not preempted), then patent law preemption ought also turn on the difference between the § 103 patentable work of inventors (as to which the patent statute speaks) and the nonpatentable works and noninventors' works (as to which the statute merely says no *federal* patent is obtainable, *without* saying whether the subject is or is not in the public domain).

But courts, like all the rest of us, have to do some things which seem expedient. And this court appears to have felt constrained not to overturn *Sears* and *Compco*.

Recall here that *Sears-Compco* were both cases on competitive simulation of published and marketed lighting fixture products whose published and marketed mechanical configurations had been copied without breach of confidence. The *Goldstein* court did not study Congressional legislative intent on "mechanical configurations" because they were not before the court and were not really briefed to the court. But the court did recall that the question in *Sears-Compco* "was whether a state could, under principles of state unfair competition law, preclude the copying of mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent."^{40,2}

^{40,2} *Id.*

The Court then quoted from *Sears* with apparent approval, and went on:

"In regard to mechanical configurations, Congress had balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. The standards established for granting federal patent protection to machines thus indicated not only which articles in this particular category Congress wished to protect, but which configurations it wished to remain free."^{40,3} (emphasis added)

The Congress only considered which it wished to remain free of federal patents, NOT which it wished to remain free of common law, equity breach of confidence, food and drug, and other restraints. But the Court seems to miss that vital distinction and continues on:

"The application of state law in these cases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way to the Supremacy Clause of the Constitution."^{40,4}

"The careful balance which Congress had drawn," seems to this student of legislative history of the Patent Act, to be the purest fiction. No "care" on this point, or "balance" is shown as to equity, common law, trust and confidence, and any patent law purpose. But cliches and phrases have a power in human thought, independent of their truth, and when spoken without analysis or understanding, they seem often to be the more powerful. When they are placed as a subordinate thought, they are in the foundation-stone role, buried and likely not to be closely examined as will be the structure built upon them—and so they may there have even greater potential for mischief among well meaning men.

So from case to case, *Singer*, *Kellogg*, *Scott*, *Sears*, *Compco*, *Lear*, and now *Goldstein*, we see a group of cases wherein no trade secret law was involved, commence with dictum error of preemption, then build preemption in case after case, until the Supreme Court majority itself, in *Goldstein* purports now to

^{40,3} Id.

^{40,4} Id.

have specifically considered and affirmed patent law preemption of constitutionally unpatentable developments of noninventors because Congressional legislative intent reached, allegedly, all "mechanical configurations."

If there is really any doubt about whether *Kewanee* preempted only § 103 patentable subject matter, or all § 101 technology, it would seem that *Goldstein's* dictum on "mechanical configurations" clarifies the point and assures its being read to all § 101 technology whether or not patentably nonobvious.

The current chapter on preemption legislative history takes the form of Section 301 in the Nixon Administration's proposed "Patent Reform and Modernization Act of 1973." There we find:

"301 Non-preemption

(a) This title shall not be construed to preempt rights or obligations arising by operation of state law concerning trade secrets.

(b) Nothing in subsection (a) shall authorize any state to grant to any person the right to limit the full and free use by the public of ideas in the public domain or in general circulation."

Clearly subsection (a) does not "grant" so subsection (b) should not be necessary. But by the purported denial of authority of a state to grant, there arises an implication of some undefined sort of preemption with respect to "ideas in the public domain or in general circulation." Such form is darn poor draftsmanship. Such a substance is not constitutionally authorized by the patent clause of the constitution, but is something the Congress perhaps can now do under the commerce clause. More important such a substance is poor structure for substantive law.

Further, the statement of no preemption of trade secret law without reference to trademarks and unfair competition law, is a poor way to connote something like a sub silentio part on the back of *Sears* and *Compco* and reprimand of *INS v. AP*, supra. Where does it leave *Singer* and *Kellogg's* patent law preemption of trademarks which may be federally registered? Statutes should be positive, should not speak only by inuendo on important issues.

Clearly the entirety of this proposed act is an example of the proverbial camel, well known to be a horse designed by a com-

mittee; for this bill has odd bumps and inelegancies scattered all through it as a result of compromises by administration drafters who could not agree even on fundamentals.

If the concept of the last Chapter of this paper is sound, then the Section 301 should be a general expression of nonpreemption, period.

I believe in judicial restraint in favor of the legislative process—which hopefully will improve the camel's lines before releasing him to the public.

I believe that "Shadows Don't Fight."

With short shadows on each of those two faiths, this paper will close.

IX. The Legislative Process vs. The Judicial Process of New Law Making

It is grossly unfair to criticize courts for "legislating." The difference between legislating and common law making is a gradation with no natural boundaries and few guideposts to separate the one from the other. In truth, legislative bodies inherently make premise findings of fact, judicially, when they legislate; and courts legislate when they construe Congressional and Constitutional writings which inevitably include language readable on situations the authors did not contemplate or decide-an-issue about.

But there are guideposts as to where the judiciary should properly decline to act in favor of the legislature and the Supreme Court has often written of those guideposts and it has followed them in the patent law area as well as others.

The judicial process is inherently a relatively ivory-towered process. Examples: The judiciary cannot send investigators into an industry to study its economics and practices and bring back studies. By contrast, the Congress has in very recent years published for criticism dozens of studies of different facets of its function as well as drafts of proposed patent acts.

The judiciary often can know nothing of international impact of its rulings; the Congress gets input from the Department of Commerce and the international companies.

The judiciary cannot publish a draft rule of law, have it cross-

examined by those who would be effected, hold public hearings to hear their comments on its error or ambiguities, then revise the rule before its promulgation with inadvertent ambiguities visits tremendous mischief upon those who know not how to apply it to their situations.

In areas such as the social role of R & D and its real life economics, the judiciary does not have ready access to what Mr. Justice Frankfurter called "the realities of law in action," and rather must decide upon the basis of its relatively ivory-towered and sometimes sterile generalizations and speculations.

It is against those background realities that the Supreme Court was writing very recently in *Gottschalk*.¹¹

"... considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems [and international economic problems?] tendered in the many briefs before us indicate to us that considered action by the Congress is needed."¹¹

That writing was in a case involving the patentability of a process for operating a computer, which most of us would call a machine, and wherein the act of Congress had already recited that a new process for operating a machine was patentable, 35 U.S.C. § 100(b). But apparently because the Court did not think the Congress had given enough consideration to *computer* machine processes, it held the Benson process to be unpatentable subject matter until Congress could act again more directly to the point.

In a case wherein the government was urging a change in the policy of title to inventions made by employees—philosophically a related issue to the *Kewanee* employees' claims—the Supreme Court stated:

"The courts ought not to declare any such policy; *its formulation belongs solely to the Congress*. . . . These are not legal questions which courts are competent to answer. They are practical questions and the decisions as to what will accomplish the greatest good for the inventor, the government and the public, rests with the Congress. *We should not read into the patent law limitations and conditions which the Legislature*

¹¹ *Gottschalk v. Benson and Tabbot*, 409 U.S. 63, 93 S. Ct. 253 (1972).

¹¹ *Id.*, 93 S. Ct. at 258.

has not expressed." *U.S. v. Dubilier Condenser Corp.*, 289 U.S. 178, 198, 53 S. Ct. 554, 561 (1933). (emphasis added)

It is clear that the "Legislature has not expressed" *Kewanee's* new Section X99.

The trade secret law, having a history of over a hundred years of uninterrupted coexistence with the patent law, brings to mind the weighty admonition of Chief Judge Cardozo in *Color v. Corn Exchange Bank*, 250 N.Y. 136, 164 N.E. 882 (1928):

"Not lightly [to be] vacated is the verdict of quiescent years."

Here the verdict has stood for over a hundred quiescent years and supports what now is business activity in the billions-a-year range.

A court with only the special circumstance of its plaintiff and defendant before it, and no economic data or industry practice information before it, is inherently presumptuous, yea perchance arrogant, to indulge such devastation to established business practice, as the original creative expression of our perverbial section X99.

Section X99 of Title 35 should be subjected to the scrutiny of the legislative process.

And the Congress has now before it, the Nixon Administration's proposed "Patent Reform and Modernization Act of 1973" with a section 301 which expressly negatives preemption of state trade secret law.

X. Shadows That Fight?

There is a common law right to copy and use—with exceptions. Each of the exceptions is like a shadow, cast from its own light of social purpose.

Each shadow is of different shape and different life time.

The shadows of copyright, patent, trademark, trade secret, breach of confidence rights to exclude others, all overlap some of the same nuggets of commercial gold, for the same design perhaps for a lamp fixture may be copyrighted, may be patented, may be a trade secret until it is marketed, may be used as a trademark.

But shadows do not fight.

If the trademark word becomes generic, the trademark shadow is removed without affecting the social purpose, scope or term of the patent shadow, or the others.

If the patent on an ornamental design expires, its shadow is removed without affecting whether or not that item is also a work of art which may qualify for copyright protection of narrower scope but that lasts longer.

When the patent issues it publishes the secret of the concept of the invention; to the extent of the publication the trade secret may be no longer confidential so the shadow of trade secret right is withdrawn without affecting the longer lasting patent right.

When the patent expires the patent right to exclude expires but no other right to exclude expires or is suggested in the patent statute to expire. If after the 17th year of a process patent the owner develops a new and cheaper way to practice the same patented process, his right of freedom from theft of his new secret and from breach of trust can continue, out of the social purpose of equity and honesty and independent of patent law social purpose.

The only reconciliation of the various intellectual property rights to exclude, is one which recognizes that: Subject only to the effect of 17 U.S.C. § 2 on published works of authors, each right to exclude expires with the running of its *own* social purpose, with no other right to exclude being affected by it, just as each shadow being taken away may leave the others, one or more, not fighting.

For one day the Supreme Court must find the merit of letting the social purpose of the patent law limit the scope and term of the patent right to exclude, the social purpose of the trademark law limit the term of the trademark right to exclude, the social purpose of the contract and tort law limit the scope and term of the trade secret right to exclude.

Perchance, *Kewanee* now on petition for writ before the Supreme Court will be the vehicle by which we all learn: shadows do not fight.